

87-618<sup>①</sup>

Supreme Court, U.S.  
FILED

OCT 13 1987

JOSEPH F. SPANIOL, JR.  
CLERK

No. \_\_\_\_\_

IN THE SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM 1987

---

MEDICAL INCORPORATED,

Petitioner,

vs.

THE REGENTS OF THE  
UNIVERSITY OF MINNESOTA,

Respondent.

---

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE MINNESOTA COURT OF APPEALS

---

PETITION FOR A WRIT OF CERTIORARI

---

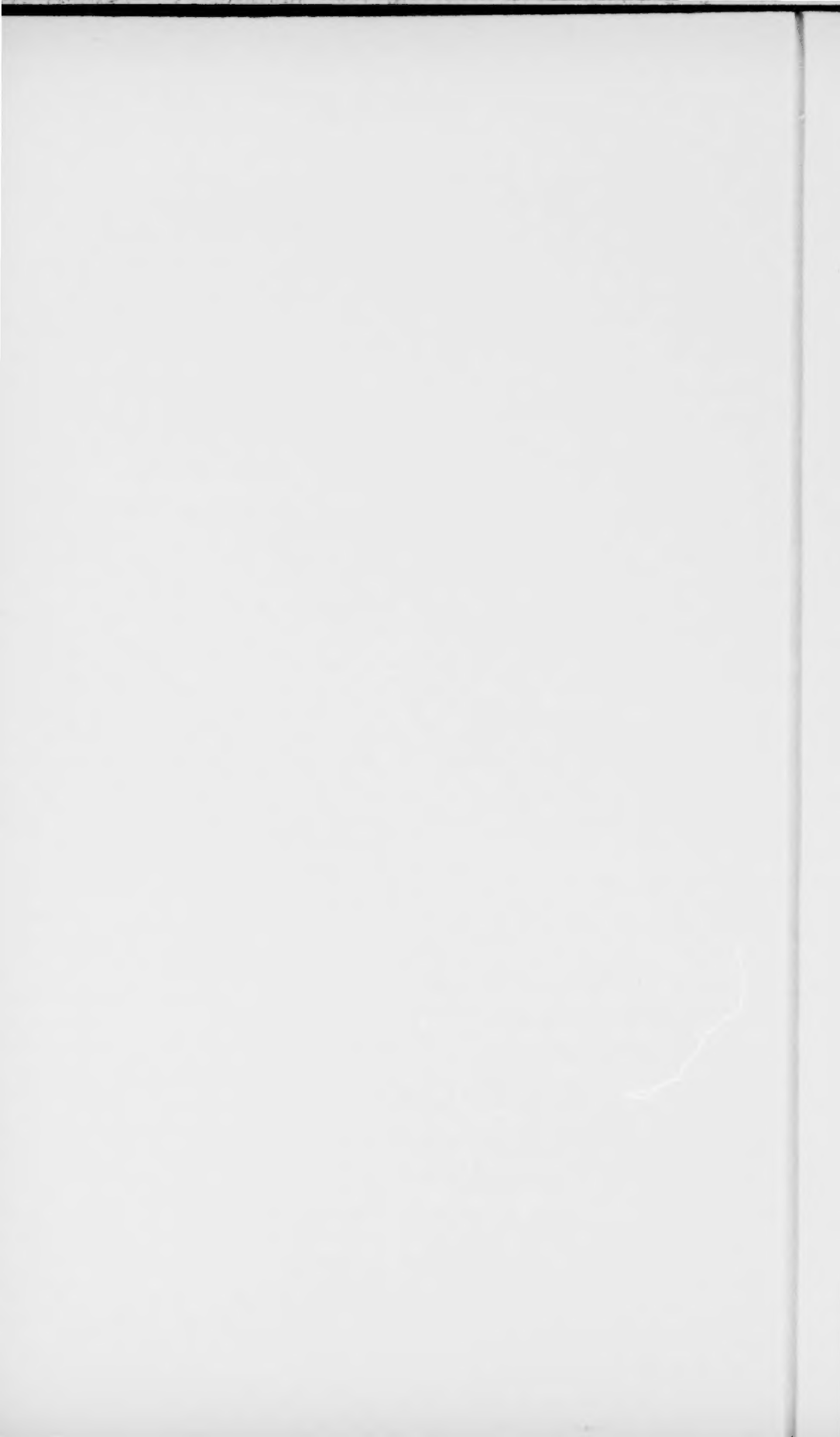
\*SIDNEY BARROWS  
HAROLD D. FIELD, JR.  
ROBERT P. THAVIS

Suite 1500  
100 South Fifth Street  
Minneapolis, Minnesota 55402  
Telephone: (612) 337-1500  
Counsel for Petitioner

Of Counsel:

LEONARD, STREET AND DEINARD  
Minneapolis, Minnesota  
\*Counsel of Record

153 PM



(i)

**QUESTION PRESENTED FOR REVIEW**

Is it patent misuse for a patent owner to extend the term of its patent monopoly by granting a license which expires when the patent expires and which requires the assignment to the licensor of all rights in the licensee's improvement patent, where the improvement patent covers the licensee's commercial product and extends eleven years beyond the expiration of the originally licensed patent?





TABLE OF CONTENTS

<u>Page</u>	
Question Presented.....	(i)
Table of Contents.....	(ii)
Appendix Index .....	(iii)
Table of Authorities.....	(iv)
Opinions Below.....	1
Jurisdiction.....	3
Statutory Provisions Involved.....	4
Statement Of The Case.....	4
Reasons For Granting Writ.....	10
A. The State Court of Last Resort Has Decided A Question Of Federal Patent Law In A Way In Conflict With Applicable Decisions Of This Court.....	10
Conclusion.....	20



APPENDIX INDEX

1. DAKOTA COUNTY, MINNESOTA,  
DISTRICT COURT FINDINGS OF  
FACT, CONCLUSIONS OF  
LAW AND ORDER FOR JUDGMENT.....A-1
2. MINNESOTA COURT OF APPEALS  
OPINION.....A-11
3. MINNESOTA SUPREME COURT ORDER  
DENYING REVIEW.....A-61
4. JUDGMENT.....A-63
5. DAKOTA COUNTY, MINNESOTA,  
DISTRICT COURT FINDINGS OF  
FACT, CONCLUSIONS OF LAW AND  
ORDER FOR JUDGMENT.....A-65
6. MINNESOTA COURT OF APPEALS  
OPINION.....A-81
7. MINNESOTA SUPREME COURT ORDER  
DENYING REVIEW.....A-122
8. JUDGMENT.....A-124



## TABLE OF AUTHORITIES

TABLE OF CASES AND AUTHORITIESCases.....Page(s)

Blonder-Tongue Labs. v.  
University Foundation,  
 402 U.S. 313 (1971).....3, 17-18

Boggild v. Kenner Products, 776 F.2d  
 1315 (6th Cir. 1985), cert. den.,  
U.S., 106 S.Ct. 3284,  
 91 L.Ed.2d 573.....11

Brulotte v. Thys Co., 379 U.S. 29  
 (1964).....10, 11, 12, 13  
 14, 15, 16, 17

Finnegan v. Spiegl Farms,  
Inc., 44 Cal. Rptr. 645  
 (Cal. App. 1965).....11

Leesona Corp. v. Varta Batteries,  
Inc., 522 F. Supp. 1304  
 (S.D.N.Y. 1981).....12

Meehan v. PPG Industries, Inc.,  
 802 F.2d 881 (7th Cir. 1986),  
 cert. den., U.S., 107  
 S.Ct. 1301, 94 L.Ed.2d 157.....11

Parsons Steel v. First Alabama Bank,  
 474 U.S. \_\_, 88 L.Ed.2d 877  
 (1986).....3

Perbal v. Dazor Manufacturing Corp.,  
 436 S.W.2d 677  
 (Mo. 1968).....11



TABLE OF CASES AND AUTHORITIES (Cont'd)

Cases.....Page(s)

Phillips Screw Co. v. Amtel,  
Inc., 465 F. Supp. 3  
(D. Mass. 1978).....11

Pitney Bowes, Inc. v. Mestre,  
701 F.2d 1365 (5th Cir.  
1983).....11

Scott Paper Co. v. Marcalus Co.,  
326 U.S. 249 (1945).....10, 14,  
16

Shields-Jetco, Inc. v. Torti,  
314 F. Supp. 1292 (D.R.I.  
1970).....11

Transparent-Wrap Machine Corp. v.  
Stokes & Smith Co.,  
329 U.S. 637  
(1947).....16, 17, 18, 19,  
and 19 n.2

Veltman v. Norton Simon, Inc.,  
425 F. Supp. 774  
(S.D.N.Y. 1977).....12

Zenith Radio Corp. v. Hazeltine  
Research, Inc., 395 U.S.  
100 (1969).....17





TABLE OF CASES AND AUTHORITIES (Cont'd)

<u>Statutes</u>	<u>Page(s)</u>
28 U.S.C. § 1257.....	3
<u>Secondary Authorities</u>	
C. Bowman, <u>Patent and Antitrust Law</u> 232 (1973).....	18
Chevigny, <u>The Vitality Of Grant-Back</u> <u>Agreements Under the Antitrust</u> <u>Laws</u> , 34 Fordham L. Rev. 569 (1966).....	18
Comment, <u>The Validity of Grant-Back</u> <u>Clauses in Patent Licensing</u> <u>Agreements</u> , 42 U. Chi. L. Rev. 733 (1975).....	18
2 Rosenberg, <u>Patent Law Fundamentals</u> (2d. ed. 1984).....	18-19
Stedman, <u>Acquisition of Patents</u> <u>and Know-How By Grant, Fraud,</u> <u>Purchase and Grant-Back</u> , 28 U. Pitt. L. Rev. 161 (1969).....	18
R. Stern, E. Gressman, S. Shapiro, <u>Supreme Court Practice</u> , 6th Ed. (1986).....	8 n.1



No. \_\_\_\_\_

IN THE SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM 1987

---

MEDICAL INCORPORATED,

Petitioner,

vs.

THE REGENTS OF THE  
UNIVERSITY OF MINNESOTA,

Respondent.

---

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE MINNESOTA COURT OF APPEALS

---

PETITION FOR A WRIT OF CERTIORARI

---

**OPINIONS BELOW**

The initial Findings of Fact, Conclusions of Law and Order for Judgment of the Dakota County District Court are reproduced at A-1-10. The initial opinion of the Minnesota Court of Appeals from 382 N.W.2d 201 (Minn. App. 1986) is



reproduced at A-11-60. The Order of the Minnesota Supreme Court denying the Petition and Conditional Cross-Petition for Review of the initial decision of the Minnesota Court of Appeals is reproduced at A-61-62. The initial judgment entered by the Minnesota Court of Appeals is reproduced at A-63-64. The Findings of Fact, Conclusions of Law and Order for Judgment of the Dakota County District Court issued upon remand are reproduced at A-65-80. The opinion of the Minnesota Court of Appeals from 405 N.W.2d 474 (Minn. App. 1987) following remand is reproduced at A-81-121. The Order of the Minnesota Supreme Court denying Petitioner's Petition for Review following remand is reproduced at A-122-123. The final judgment of the Minnesota Court of Appeals is reproduced at A-124-125.



### JURISDICTION

This Court has jurisdiction pursuant to 28 U.S.C. § 1257 to review federal issues in "final judgments . . . rendered by the highest court of a state in which a decision could be had. . . ." The final judgment of the Minnesota Court of Appeals in this case was entered July 31, 1987, following the July 15, 1987 Minnesota Supreme Court denial of Petitioner's Petition for Review. This case involves violation of federal law governing patents and patent misuse, a federal question. Blonder-Tongue Labs. v. University Foundation, 402 U.S. 313 (1971); Parsons Steel v. First Alabama Bank, 474 U.S. \_\_\_\_\_, 88 L.Ed.2d 877 (1986). The final judgment of the Minnesota Court of Appeals is reviewable by Writ of Certiorari from this Court.





### STATUTORY PROVISIONS INVOLVED

Patent misuse is a judicially developed doctrine in the federal common law, and directly involves no statutory provisions.

### STATEMENT OF THE CASE

Respondent the Regents of the University of Minnesota ("University") sued Petitioner Medical Incorporated ("Medical") for royalties and specific performance claimed due under a patent license agreement dated October 19, 1971, and amended November 20, 1975. That agreement licensed Medical to manufacture and sell artificial heart valves under U.S. Patent No. 3,476,143, issued November 4, 1969 (the "Kaster patent").



In addition to seeking royalties, the University claimed that the grant-back clause in the license agreement required Medical to transfer to the University all right, title and interest in U.S. Patent No. 4,240,161, an improvement patent issued to Medical December 23, 1980 (the "Huffstutler Patent"). Medical responded that if the license agreement were construed to require the grant-back of Huffstutler, the agreement would be void as a misuse of the Kaster patent.

The trial, held in Dakota County, Minnesota, District Court, involved numerous issues. In answer to special interrogatories, the jury found, inter alia, that the Huffstutler patent is an improvement patent covered by the grant-back clause in the license agreement. Based on the jury findings, the trial



court then ordered Medical to assign its entire right, title and interest in its Huffstutler patent to the University, and construed the license agreement as extending until December 22, 1997, (the date the Huffstutler patent expires, some 11 years beyond the expiration of the Kaster patent).

Medical appealed to the Minnesota Court of Appeals, claiming inter alia that the license agreement's expiration date and grant-back provision, as construed, constituted patent misuse voiding the agreement.

The Minnesota Court of Appeals reversed the trial court construction of the duration of the license agreement, holding that the license agreement, and Medical's obligation to pay royalties thereunder, terminated on the date that the Kaster patent expired. As to the

EDITOR'S NOTE

THE FOLLOWING PAGES WERE POOR HARD COPY  
AT THE TIME OF FILMING. IF AND WHEN A  
BETTER COPY CAN BE OBTAINED, A NEW FICHE  
WILL BE ISSUED.

grant-back provision, the Court found that if the grant-back substantially extended and enhanced the scope of the Kaster patent monopoly it constituted patent misuse, and ordered a remand to the trial court for findings on that question.

Medical's Petition and the University's Conditional Cross-Petition for Review by the Minnesota Supreme Court were denied, the Minnesota Court of Appeals judgment was entered, and the case was remanded to the trial court for a determination of whether the assignment of Medical's Huffstutler patent to the University substantially extended





and enhanced the scope of the University's Kaster patent monopoly.<sup>1</sup>

On remand Medical argued that the license agreement's requirement that Medical assign to the University its "entire right, title and interest" in Medical's Huffstutler patent had the effect of extending both the duration and the scope of the University's Kaster

---

<sup>1</sup> Upon entry of the initial Minnesota Court of Appeals judgment Medical petitioned this Court for a Writ of Certiorari. Its petition noted a question as to finality of that judgment, given some uncertainty as to the scope of the remand. Medical's Petition also noted that Medical believed it "best to seek review of the first judgment whenever its finality is a reasonable possibility, and, if unsuccessful, to bring up the second judgment later." R. Stern, E. Gressman, S. Shapiro, Supreme Court Practice, 6th Ed. 1986, § 3.10 at 133. This Court denied Medical's petition for Writ of Certiorari by Order entered October 14, 1986.



patent monopoly. The district court found that the assignment of the Huffstutler patent to the University did not extend the scope of the Kaster patent monopoly. The trial court's decision did not address the claim of extended duration.

Medical appealed the district court decision to the Minnesota Court of Appeals, which (i) upheld the district court finding as to scope, (ii) found that the question of extended duration was within its previous remand, and (iii) held that the additional 11 year duration of the University's patent monopoly created by the grant-back of the Huffstutler patent did not constitute patent misuse.

Medical's petition to the Minnesota Supreme Court was denied, and the final



Minnesota Court of Appeals judgment was entered.

#### REASONS FOR GRANTING WRIT

- A. The State Court Of Last Resort Has Decided A Question Of Federal Patent Law In A Way In Conflict With Applicable Decisions Of This Court.

In Scott Paper Co. v. Marcalus Co., 326 U.S. 249, 256 (1945), the Supreme Court stated that "any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws." In Brulotte v. Thys Co., 379 U.S. 29, 33 (1964), the Supreme Court, relying on Scott Paper Co., held that it is unlawful per se for a patentee "to project . . . royalty payments beyond the life of the patent."



Since Brulotte, the courts have repeatedly refused to enforce any license provision which directly or indirectly attempts to extract a royalty beyond the expiration date of the licensed patent. See, e.g., Meehan v. PPG Industries, Inc., 802 F.2d 881 (7th Cir. 1986), cert. den., \_\_\_U.S.\_\_\_, 107 S.Ct. 1301, 94 L.Ed.2d 157; Boggild v. Kenner Products, 776 F.2d 1315 (6th Cir. 1985), cert. den., \_\_\_U.S.\_\_\_, 106 S.Ct. 3284, 91 L.Ed.2d 573; Pitney Bowes, Inc. v. Mestre, 701 F.2d. 1365, 1371 (5th Cir. 1983); Phillips Screw Co. v. Amtel, Inc., 465 F. Supp. 3, 5-6 (D. Mass. 1978); Shields-Jetco, Inc. v. Torti, 314 F. Supp. 1292, 1303 (D.R.I. 1970); Perbal v. Dazor Manufacturing Corp., 436 S.W.2d 677 (Mo. 1968); Finnegan v. Spiegl Farms, Inc., 44 Cal. Rptr. 645, 647 (Cal. App. 1965). The licensee is





not required to prove that the licensor conditioned the grant of the license on the agreement to pay royalties beyond the term. Leesona Corp. v. Varta Batteries, Inc., 522 F. Supp. 1304, 1342 (S.D.N.Y. 1981); Veltman v. Norton Simon, Inc., 425 F. Supp. 774, 775 (S.D.N.Y. 1977). The mere presence of the provision in the contract is sufficient to establish misuse.

In its first opinion the Minnesota Court of Appeals properly noted that if the license agreement, including its royalty requirement, continued in effect beyond the expiration of the Kaster patent, as the trial court had found, then the license agreement would constitute patent misuse under Brulotte. Rather than finding patent misuse, however, the Minnesota Court of Appeals construed the license agreement as expiring with the



Kaster patent. There was no discussion as to whether the monopoly of the Kaster patent was extended by a license which left the University with all right, title and interest in the Huffstutler improvement patent for the remaining 11 years of the term of the Huffstutler patent.

In its second opinion the Minnesota Court of Appeals did deal with this issue. The Court of Appeals found no patent misuse in the license agreement's requirement that Medical assign its "entire right, title and interest" in its Huffstutler patent to the University for the life of Huffstutler patent, even though the Huffstutler patent runs 11 years beyond the expiration of the Kaster patent. Its finding was based on its view that Brulotte prohibited only those extensions of royalty obligations



which result from a license agreement which itself extends beyond the life of the licensed patent. The Court of Appeals therefore found no misuse in a situation where the combined effect of the grant-back clause and the expiration of the original license term is to require Medical to negotiate a new agreement for payment of royalties, in order to continue using the teachings of its own Huffstutler patent after the expiration of the originally licensed patent.

The Minnesota Court of Appeals erred in concluding that the grant-back provision did not violate the per se rule of Scott Paper Co. and Brulotte. It does not matter whether Medical's obligation to pay the University royalties beyond the expiration of the licensed patent in order to use the



improvement patent's teachings arises from continuing a license agreement's royalty obligation, or from imposing a legal obligation to refrain from patent infringement. The extension of the patent monopoly results regardless. Allowing the decision of the Minnesota Court of Appeals to stand would leave a gaping hole in this Court's broad prohibition against extending the duration of a patent's monopoly.

Indeed, the extension here has even greater potential for oppression of the licensee than that which Brulotte condemned, since Medical cannot simply pay a previously negotiated royalty to continue using the teachings of the improvement patent. Rather, Medical is left unable to utilize those teachings at all, except under a new license. Since its own improvement is





incorporated into its manufactured product, Medical is then left in the position of negotiating a new license to continue manufacturing its own products, or of infringing its own patent. Even if that does not directly violate the specific prohibition of Brulotte, it is clearly contrary to the broad prohibition of Scott Paper Co.

In finding Brulotte inapplicable, the Minnesota Court of Appeals mistakenly relied on this Court's earlier holding in Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) ("Trans-Wrap"). In Trans-Wrap this Court decided, by a 5-4 margin, that a grant-back requirement in a patent license which required the licensee to assign back certain rights to improvement inventions was not illegal per se, but was only enforceable



if reasonable when made. The Minnesota Court of Appeals reasoned that grant-backs inherently extend the term of a patent monopoly, and that if grant-backs are not per se illegal, then this grant-back's extension of the duration of a patent monopoly must be permissible.

The premise of the Minnesota Court of Appeals is incorrect, since grant-back provision need not give the original licensor the monopoly power to exclude the original licensee, but can simply require, for example, a grant-back of a paid-up non-exclusive license.

Nor should Trans-Wrap be so expansively read as to require the result below. The continuing validity of Trans-Wrap, in light of Brulotte, and the decisions of this Court in Zenith Radio Corp. v. Hazeltine Research, Inc.

395 U.S. 100 (1969) and Blonder-Tongue



Labs. v. University Foundation, 402 U.S. 313 (1971), has been repeatedly questioned. Commentators have tended to either limit the rule of Trans-Wrap, or question it outright. See, Stedman, Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grant-Back, 28 U. Pitt. L. Rev. 161, 169 (1969) ("The case, in its carefully limited language and its application to some rather special facts, provides little comfort for the devotee of grant-backs."); C. Bowman, Patent and Trust Law 232 (1973); Chevigny, The Validity of Grant-Back Agreements Under the Antitrust Laws, 34 Fordham L. Rev. 569, 592 (1966); Comment, The Validity of Grant-Back Clauses in Patent Licensing Agreements, 42 U. Chi. L. Rev. 733 (1975); 2 Rosenberg, Patent Law Fundamentals ¶ 16.02[2], at 16.26, 16.26.1



(2d. ed. 1984).

The Supreme Court in Trans-Wrap carefully noted that policy considerations such as the disincentive to the development of patentable improvements were not implicated by its decision Trans-Wrap, since the grant-back clause in question in Trans-Wrap did not leave the licensee in the position of infringing its own patent.<sup>2</sup>

---

<sup>2</sup> Petitioner believes the Court declined to adopt a per se rule in Trans-Wrap because that license agreement was made in the context of the sale of a business which the parties contemplated would revert to the licensee at the end of a ten-year term, or any renewal term. The seller/ licensor would receive back his business complete with patent improvements to it, yet the licensee could at any time extend the contract term and avoid liability for further royalties. In that context "the effect on the public interest would seem to be the same whether the licensee or the licensor owns the improvement patents." Id. at 640.

That is not the case here, however, where the University could utilize its extended monopoly power to prohibit Medical from using its improvement entirely.

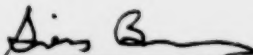




CONCLUSION

For the foregoing reasons, the  
Petition for a Writ of Certiorari to the  
Minnesota Court of Appeals should be  
granted.

Respectfully submitted,

By   
\*SIDNEY BARROWS  
HAROLD D. FIELD, JR.  
ROBERT P. THAVIS

Suite 1500  
100 South Fifth Street  
Minneapolis, Minnesota 55402  
Telephone: (612) 337-1500

*Attorneys for Petitioner*

Of Counsel:  
LEONARD, STREET AND DEINARD  
\* Counsel of Record



## APPENDIX



STATE OF MINNESOTA

DISTRICT COURT

COUNTY OF DAKOTA

FIRST JUDICIAL  
DISTRICT

Court File No. 94170

---

The Regents of the	)	
University of Minnesota,	)	
	)	
Plaintiffs,	)	
	)	
vs.	)	FINDINGS
	)	OF FACT
	)	CONCLUSIONS
Medical Incorporated,	)	OF LAW
	)	AND ORDER
Defendant.	)	FOR JUDGMENT

---

The above-entitled matter came on for trial to the Court, with a jury, from October 15 through November 30, 1984, at the Dakota County Government Center in Hastings, Minnesota. Thomas Tinkham and I. Fay Nosow of Dorsey & Whitney appeared as counsel for the



plaintiff, and Harold D. Field, Jr. and Nancy C. Dreher of Leonard, Street & Deinard appeared as counsel for the defendant.

Upon the pleadings, evidence and verdict of the jury, the Court makes the following:

FINDINGS OF FACT

1. The plaintiff, Regents of the University of Minnesota, and defendant, Medical Incorporated, entered into a License Agreement on October 19, 1971 and an Amendment thereto on November 20, 1975.

2. By those agreements, the defendant obligated itself to pay to the plaintiff royalties for the heart valves manufactured and sold by the defendant,





whether or not they were covered by a particular patent.

3. The University is the owner of U.S. Patent No. 3,476,143, on a pivoting disc heart valve invented by Robert L. Kaster.

4. The defendant, as the assignee of M. Conrad Huffstutler, et al., applied for, obtained, and owns U.S. Patent No. 4,240,161, which was issued on December 23, 1980.

5. The Huffstutler patent was an improvement invention within paragraph 8 of the License Agreement of the parties.

6. The defendant assigned to the plaintiff the patent application on an invention of Francis W. Child, which was issued as Patent No. 3,737,919 on June 12, 1973, and the plaintiff is the owner of that patent.



7. The plaintiff and defendant were co-plaintiffs in a separate lawsuit charging Shiley Laboratories with infringement of the Kaster '143 patent, which proceedings were captioned: Washington Scientific Industries, Inc., et al. vs. Shiley Laboratories, Inc., 187 U.S.P.Q. 236 (C.D. Cal. 1975), the judgment in which held the Kaster '143 patent to be valid but not infringed by the Bjork-Shiley heart valve.

8. Medical manufactures and sells heart valves of two configurations: the Lillehei-Kaster heart valve and the Omniscience/Omnicarbon heart valve.

9. Claim 1 of the Kaster '143 patent covers the Lillehei-Kaster and the Omniscience/Omnicarbon heart valves manufactured by the defendant.

10. The Lillehei-Kaster and Omniscience/Omnicarbon heart valves are



covered by Claim 11 or 17 of the Kaster '143 patent.

11. The Lillehei-Kaster and the Omniscience/Omnicarbon heart valves are covered by one or more claims of the Child '919 patent.

12. Francis Child did not himself invent the subject matter described in the claims of the Child '919 patent.

13. The subject matter described in the claims of the Child '919 patent was obvious to one skilled in the art when the invention was made.

14. The net amount of royalties due at the 5% rate is as follows:

Lillehei-Kaster	\$1,303,624.00
Omniscience/Omnicarbon	<u>2,018,148.00</u>
subtotal	\$3,321,772.00
less prepaid royalties	- <u>378,745.34</u>
Total (including interest)	<u>\$2,943,026.66</u>



15. The University and Medical did not enter into an agreement which obligated the University to either not commence or not continue a lawsuit to enforce its royalty claims until after it had given consideration to a patent coverage opinion while it remained a holder of the Medical stock given to it.

From the foregoing, the Court makes the following:

CONCLUSIONS OF LAW

1. The License Agreement and the Amendment thereto of the parties are valid and enforceable.

2. The Kaster '143 patent is valid and enforceable.

3. The Child '919 patent is not valid.

4. The invention disclosed in the Huffstutler patent, as an improvement





invention within the meaning of paragraph 8 of the License Agreement, should be assigned by the defendant to the plaintiff.

5. The defendant ought to be required to pay royalties on both the Lillehei-Kaster and the Omniscience/Omnicarbon heart valves, regardless of patent coverage.

6. The defendant ought to pay royalties at the rate of five percent (5%) on improvement inventions assigned to it under paragraph 8 of the License Agreement.

7. Claims 1, 11 and 17 of the Kaster '143 patent cover both the Lillehei-Kaster and the Omniscience/Omnicarbon heart valves.

8. The plaintiff is entitled to royalties from the defendant under the License Agreement and its Amendment



until the expiration of the Huffstutler Patent.

ORDER FOR JUDGMENT

IT IS ACCORDINGLY HEREBY ORDERED,  
AFTER A 30-DAY STAY:

1. Defendant shall pay to the plaintiff Regents of the University of Minnesota as royalties and interest due through July 31, 1984, the sum of \$2,943,026.66.

2. The defendant Medical shall make written royalty reports to the University within 60 days after the 31st days of January and July annually, commencing January 1985, and continuing through December 22, 1997, the final report being due within 60 days of this latter date. The written reports shall state the number, description and sales price of all heart valves manufactured



and sold or otherwise disposed of or distributed by the defendant during the preceding six-month period.

3. At the same time that the above required royalty reports are made, Medical shall pay to the University royalties on the valves manufactured and sold by Medical, its subsidiaries or distributors, which have the same general configuration as the current Lillehei-Kaster and Omniscience/Omnicarbon valves, except that no royalties shall be paid on sales of valves to the Government of the United States or any of its agencies for governmental purposes. The royalties shall be payable in an amount equal to five percent (5%) of the retail sales price charged by Medical, its subsidiaries or distributors to the using surgeon or hospital, less those allowances,



discounts, taxes and duties deductible under paragraph 3 of the License Agreement.

4. Defendant shall assign to the plaintiff its entire right, title and interest in and to U.S. Patent No. 4,240,161.

5. The counterclaims of the defendant, except that challenging the validity of U.S. Patent No. 3,737,919, are dismissed.

6. U.S. Patent No. 3,737,919 is declared invalid.

7. The plaintiff is entitled to recover from the defendant its costs and disbursements necessarily incurred herein.

Dated this 4th Day of December, 1984.

BY THE COURT:

/s/ Jack A. Mitchell  
Jack A. Mitchell  
Judge of District Court





A-11

STATE OF MINNESOTA  
IN COURT OF APPEALS  
C7-85-418

Dakota County

Lansing, Judge

The Regents of the  
University of  
Minnesota,

Respondent,

Thomas W. Tinkham  
I. Fay Nosow  
Dorsey & Whitney  
2200 First Bank  
Place East  
Minneapolis,  
Minnesota 55402

vs.

Medical  
Incorporated

Appellant.

Harold D. Field,  
Jr.  
Nancy C. Dreher  
David L. Lillehaug  
Leonard, Street and  
Deinard  
Suite 1500  
100 South Fifth  
Street  
Minneapolis,  
Minnesota 55402

Charles A.  
Bassford, Jr.  
Baker & Bassford,  
P.A.  
405 Edina Executive  
Plaza  
5200 Willson Road  
Edina, Minnesota  
55424



A-12

Filed February 11,  
1986  
Wayne Tschimperle,  
Clerk  
Minnesota Appellate  
Courts

S Y L L A B U S

1. The trial court properly refused to give collateral estoppel effect to a prior adjudication when the party attempting to invoke the defense failed to prove that the language upon which it relied was necessary to the prior adjudication and failed to demonstrate identity of issues between the two suits.

2. The trial court did not abuse its discretion in ruling inadmissible findings of the prior adjudication, the original complaint in the present action, and a letter written by a patent attorney to the University's patent administrator.



3. The trial court's finding that the total sales royalty provision was not conditioned is not clearly erroneous.

4. The trial court erred in failing to make any findings on whether the assignment of the improvement patent substantially extended the claims of the licensed patent.

5. A construction of the patent license's duration to require payment of royalties on a product covered by an expired patent would constitute patent misuse. The trial court improperly construed the duration of the license agreement to extend to the expiration of the improvement patent.

6. The trial court erred in denying respondent prejudgment interest for the period running from the date of



the last royalty report to the date the verdict was returned.

7. Denial of respondent's motion for attorney's fees was not an abuse of discretion.

Affirmed in part, reversed in part, and remanded.

Heard, considered and decided by Forsberg, Presiding Judge, Lansing, Judge, and Nierengarten, Judge.

#### O P I N I O N

LANSING, Judge

The University of Minnesota brought this action for royalties and specific performance against Medical Incorporated, its licensee under a patent licensing agreement. The jury found the University was entitled to the royalties and also made findings from which the trial court granted specific perfor-





mance. Medical claims the trial court committed a number of errors requiring either an amended judgment or a new trial. The University seeks review of the trial court's denial of its motion for attorney's fees and its denial of prejudgment interest for the period from October 1, 1984, through November 30, 1984. We affirm in part, reverse in part, and remand.

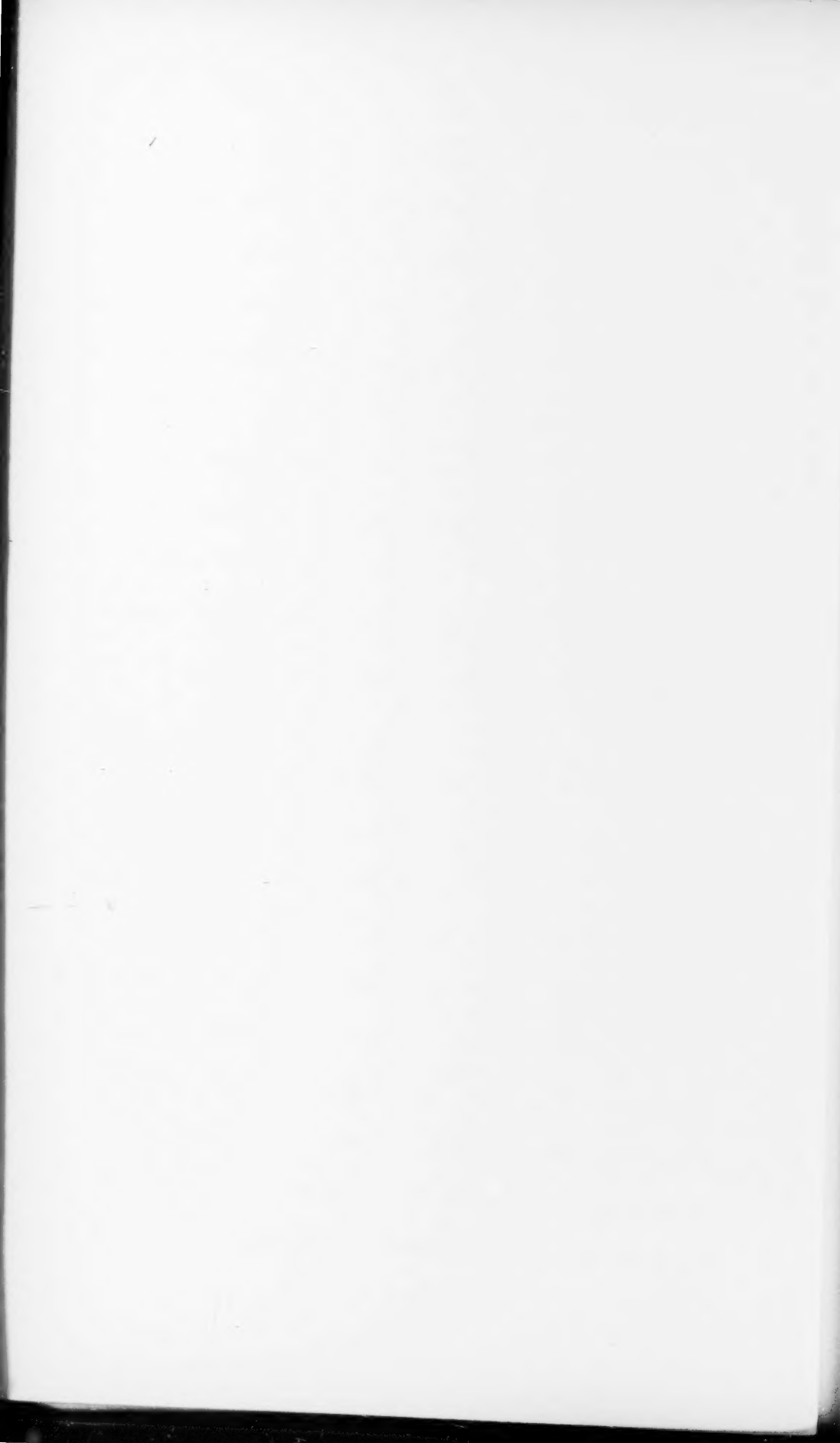
### FACTS

In 1966 Robert Kaster, a University employee, invented a heart valve. The University, as assignee of Kaster's invention, applied for a patent on the valve in 1967. U.S. Patent No. 3,476,143 (the "Kaster patent") was issued to the University in November 1969.



In 1967 the University granted a license to manufacture heart valves to Washington Scientific Industries (WSI). WSI, with Kaster's assistance, developed the Lillehei-Kaster (L-K) heart valve, a clinically and commercially acceptable version of the Kaster patent. In 1971 WSI sold its heart valve business to Marshall Kriesel, who formed Medical Incorporated soon thereafter.

An agreement was negotiated between Medical and the University, licensing the right to make and sell heart valves in accordance with the Kaster patent. The license required a royalty for "each and every heart valve unit" made, calculated at five (5) percent of the retail sales price of the valve. The parties also agreed that the University would license any improvement inventions "cov-



ered by the claims" of the Kaster patent to Medical, and Medical would assign to the University any "improvements" to the Kaster patent it developed. The license was to be exclusive in the United States and Possessions for five years. Finally, the license required Medical to become a party to and pay all costs of a lawsuit which had been brought in 1970 by WSI and the University against Shiley Laboratories, Inc., for alleged infringement of the Kaster patent by one of Shiley's heart valves, the Bjork-Shiley valve. In return for its prosecution of the case, Medical's litigation costs were to be treated as prepaid royalties.

After a 13-day trial in 1974, the United States District Court for the Central District of California held that the Kaster patent was valid but not



infringed by the Bjork-Shiley valve. See Washington Scientific Industries, Inc. v. Shiley Laboratories, Inc., 187 U.S.P.Q. 236 (1975). The court's opinion implied that the Kaster patent did not accurately describe the L-K valve. Id. at 242. On the advice of their attorneys, the University and Medical chose not to appeal the decision. A settlement was reached with Shiley, and the decision became final.

Between July and November 1975, the University and Medical met several times to discuss the prepaid royalties Medical had accrued while funding the Shiley litigation. For the first time, Marshall Kriesel, the president of Medical, objected to paying royalties on the L-K valve, arguing that after the Shiley decision, it was questionable whether the Kaster patent covered the





L-K valve. Kriesel was, however, willing to pay royalties on a new all-carbon valve Medical had under development, which he believed was covered by the "Child patent," which Medical had assigned to the University as an improvement patent under the licensing agreement.

The University took the position that the Shiley litigation had not decided whether the L-K valve was covered by the Kaster patent, but that in any event, Medical had agreed to pay a royalty on each and every valve it made.

An amendment to the license agreement was signed in November 1975. Under its terms, Medical agreed to resume payments of royalties under the license agreement on the L-K valve and on Medical's pending all-carbon heart valve. The University extended the



exclusivity of the license on the all-carbon heart valve for an additional five years and extended the foreign exclusivity of the license until "the last of the licensed patents to expire." Further, the University waived royalties under the license for the period of August 1974 through October 1975 and paid Medical \$100,000 as reimbursement for its costs in another lawsuit involving the Kaster patent.

Medical was to begin reporting royalties every six months beginning at the end of March 1976, with the first royalty payment due by March 31, 1977. No reports were ever submitted. The University asked Medical to make royalty reports and pay royalties. Medical's response was that the University would receive the reports when its audits were completed. In late 1980, after its pat-



ent experts had examined the Shiley decision and rendered opinions, Medical informed the University that it would not pay royalties because it did not believe any of the valves it manufactured were covered by the Kaster patent. The University commenced this suit for royalties and for specific performance in November 1981.<sup>1</sup> A seven-week jury trial was held.

At trial the University advanced two arguments. It first asserted that the claims of the Kaster patent covered all heart valves manufactured by Medical (the L-K and the recently developed Omniscience (OS) and Omnicarbon (OC))

---

<sup>1</sup> Suit was brought in state court because litigation based on a license or royalty agreement seeking specific performance or damages for breach of contract does not "arise" under the patent laws; federal courts have no jurisdiction absent diversity of citizenship. 28 U.S.C, § 1338; Wilson v. Sandford, 51 U.S. 99 (1850)).



and that Medical's Huffstutler patent (which was a patent Medical had recently obtained on its OS valve) fell within the scope of the Kaster patent. The University argued alternatively that the scope of the Kaster patent was irrelevant because the license agreement required Medical to pay royalties on "each and every heart valve" even if the Kaster patent were found not to cover the L-K valve or the OS/OC valves. The University also claimed the Huffstutler patent had to be assigned to it as an improvement invention under the license. Medical's position at trial on the coverage issue was that after Shiley, the scope of the Kaster patent was narrow and could not be construed to cover either the L-K valve or the OS/OC valves. Therefore, Medical claimed, it was not obligated to pay any royalties





under the license because it had only agreed to pay royalties on valves covered by the Kaster patent.

In special interrogatories, the jury found: (1) all three of Medical's current artificial heart valve products, the L-K, the OS, and the OC, are covered by the Kaster patent; (2) in the license agreement or the amendment Medical agreed to pay royalties whether or not the valves were covered by a patent; (3) the Huffstutler patent is an improvement invention under the grant-back clause in the license agreement; and (4) Medical owes the University \$2,943,026 in past-due royalties and interest. Based on this verdict, the trial court ordered Medical to pay past royalties, to assign the Huffstutler patent to the University, and to continue to pay royalties on all its heart valves until December



22, 1997, the date the Huffstutler patent expires.

Medical appeals from the trial court's order denying its motion for a new trial, or alternatively for judgment notwithstanding the verdict, and from the judgment. The University filed a notice of review contesting the trial court's failure to award it attorney's fees and disputing the award of prejudgment interest.

### ISSUES

1. Did the trial court properly refuse to give the Shiley decision collateral estoppel effect?

2. Did the trial court err prejudicially in refusing to admit into evidence:

a. The Shiley decision?



b. The University's original complaint?

c. A letter written by one of the University's patent attorneys?

3. Does the jury's determination together with the trial court's construction of the license agreement and amendment constitute patent misuse by the University?

4. Did the trial court err in denying the University prejudgment interest for the period from October 1, 1984, through November 30, 1984?

5. Did the trial court abuse its discretion in failing to award the University attorney's fees?



ANALYSIS

I

Collateral Estoppel

Medical contends the trial court erred in failing to give collateral estoppel effect to the Shiley decision and asserts the University is bound by the Shiley court's findings and conclusions on the scope of the Kaster patent. Specifically, Medical asserts that Shiley found the Kaster patent valid but limited in scope to a valve with no backflow in the closed position and a fixed axis of rotation for the disc. Medical requested jury instructions based on this interpretation of Shiley and language from the opinion characterizing the Kaster patent as an improvement through details of construction, rather than a change in basic concepts in heart valve technology. The





trial court refused Medical's requested jury instructions and refused to admit the Shiley decision on the issue of coverage, finding no identity of issues in the two cases.

Collateral estoppel precludes the relitigation of issues which are both identical to those issues already litigated by the parties in a prior action and necessary and essential to the resulting judgment. Ellis v. Minneapolis Commission on Civil Rights, 319 N.W.2d 702, 704 (Minn. 1982); A. B. Dick Co. v. Burroughs Corp., 713 F.2d 700, 702 (Fed. Cir. 1983) cert. denied 464 U.S. 1042 (1984). Whether collateral estoppel is available is a mixed question of law and fact subject to de novo review; once it is determined that collateral estoppel is available, the decision to apply the doctrine is left to the trial court's



discretion.            United States v.  
Geophysical Corp., 732 F.2d 693, 697  
(9th Cir. 1984).

While more frequently applied to prior findings of patent invalidity, see Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971), preclusive effect may also be given to prior findings on the scope of a patent because determinations of infringement and validity both involve claim interpretation. Overhead Door Corp. v. Whiting Roll-up Door Manufacturing Corp., 215 U.S.P.Q. 428, 433 (W.D.N.Y. 1981) (citing Iron Ore Co. of Canada v. Dow Chemical Co., 177 U.S.P.Q. 34, 59 (D. Utah 1972)).

The application of collateral estoppel turns on a determination of what was essentially decided in the Shiley litigation. In finding the pat-



ent valid, the Shiley court compared the Bjork-Shiley valve with the claims of the Kaster patent in suit. The court identified in its findings four significant ways in which the claims of the Kaster patent failed to define the Bjork-Shiley valve: (1) the Bjork-Shiley valve did not have an "annular uninterrupted peripheral portion;" (2) the Bjork-Shiley valve did not block the reverse flow; (3) the Bjork-Shiley valve had a wobble or rocking open/close motion rather than a pivot; and (4) most significantly, the Bjork-Shiley valve did not have a first or second pair of legs and no elements corresponding to legs in structure or function.

In its conclusion the court stated:

I. The limitations in the broadest claims which were required by the Patent Office as a condition of obtaining a patent are binding upon plaintiffs and plaintiffs are



not now free to claim any pivoting disc valve but only pivoting disc valves which include each of the components of the limitation introduced during prosecution; e.g., the two pairs of legs which are structured and which cooperate with the peripheral portion and with each other in the manner and relation defined in the claims \* \* \*. Since the evidence clearly shows that the structure and the operating relationship of the support rods with the disc in the accused devices is different in principle from the legs and peripheral portion relationship defined in the limitations introduced into the claims to obtain allowance, the only manner in which infringement could be found would be to ignore these limitations and this is not permitted.

187 U.S.P.Q. at 243 (emphasis added). The limitations Shiley read into the claims of the Kaster patent that were essential to its judgment of non-infringement involved the relationship between the legs and the "annular uninterrupted peripheral portion" features.





The court's findings on the two features on which Medical would base collateral estoppel--the backflow and fixed axis features--are not essential to the court's conclusion of law and judgment.

The doctrine of collateral estoppel is generally beneficial in patent claims because the litigation is lengthy, costly and complex. However, the burden of proof is on the party invoking the defense. Virsen v. Rosso, Beutel, Johnson, Rosso & Ebersold, 356 N.W.2d 333, 337 (Minn. Ct. App. 1984). Minnesota courts have traditionally required a strong showing that the requisites of the doctrine have been met:

The defense of res judicata through estoppel by verdict [collateral estoppel] is to be allowed with caution, and it must rest upon a more solid basis than mere speculation as to what was actually adjudicated in the prior action.

\* \* \*



There can be no estoppel where there is a reasonable doubt as to whether a fact was actually adjudicated.

Id. (quoting Wolfson v. Northern States Management Co., 221 Minn. 474, 479, 22 N.W.2d 545, 548 (1946)). Medical failed to show that the language from the Shiley opinion regarding the scope of the Kaster patent was necessary to the prior adjudication.

Medical also argues it is entitled to collateral estoppel because the valves it manufactures differ from the Kaster patent in the same way as the Bjork-Shiley valve. See, e.g., Overhead Door, 217 U.S.P.Q. at 433. The parties stipulated that Medical's valves have controlled peripheral backflow in the closed position and a shift in the axis of rotation upon opening and closing of the disc. However, Medical did not establish the identity of issues on the



remaining two features which were necessary to the trial court's decision. Our examination of the record fails to persuade us that the trial court erred in refusing to apply collateral estoppel.<sup>2</sup>

## II

### Evidentiary Rulings

Evidentiary rulings on materiality, foundation, remoteness, relevancy, or the cumulative nature of evidence are committed to the sound discretion of the trial judge and will only be the basis for reversal where that discretion has been clearly abused. Jenson v. Touche

---

<sup>2</sup> We also note that Medical and the University were co-plaintiffs in the Shiley case. Collateral estoppel is generally applied only to those issues actually litigated fully and fairly as adversaries. See Restatement (Second) of Judgments §38 (1982). This issue was not raised or argued by the parties.



Ross & Co., 335 N.W.2d 720, 725 (Minn. 1983). Moreover, "before an error in the exclusion of evidence may be grounds for a new trial, it must appear that such evidence might reasonably have changed the result of the trial if it had been admitted." Id. (citing Poppenhagen v. Sornsin Construction Co., 300 Minn. 73, 79-80, 220 N.W.2d 281, 286 (1974)).

a. Exclusion of Shiley Opinion

Medical contends the trial court erred when it ruled the Shiley opinion inadmissible on the coverage issue. If neither collateral estoppel nor res judicata applies, previous judgments are regarded as hearsay and are not within an exception to the hearsay rule. McCormick on Evidence §318, at 884 n.4 (E. Cleary 3d ed. 1984) (citing 5 Wigmore, Evidence §1671a (Chadbourn rev. 1974)); see also Zenith Radio Corp. v.





Matsushita Electric Industrial Co., 505 F. Supp. 1125, 1184-86 (E.D. Pa. 1980) (judicial findings not admissible under public records exception), aff'd in part, rev'd and remanded in part on other grounds sub nom. In re Japanese Electronic Products Antitrust Litigation, 723 F.2d 238, 275 (3d Cir. 1983). The process for determining trustworthiness as required under rules 803 and 804 is unsuited to evaluating judicial opinions because rule 605 makes the judge incompetent as a witness. Zenith Radio, 505 F. Supp. at 1185.

In this case the trial court excluded the Shiley opinion because its slight relevance was outweighed by the danger of undue prejudice and jury confusion. See Minn. R. Evid. 403; In re Commodore Hotel Fire & Explosion Cases, 324 N.W.2d 245, 249 (Minn. 1982); Lines



v. Ryan, 272 N.W.2d 896, 902 (Minn. 1978). The court reasoned that the jury would be likely to give undue weight to findings issued by a judge.

Medical asserts that it needed the decision to respond to the University's "strenuous attack" on the credibility of testimony by Medical's witnesses on contract negotiation. The University argued that Medical changed its position on the coverage of the Kaster patent because of the Shiley opinion, and Medical argues the jury should have had the opinion to evaluate Medical's explanations. The trial court permitted limited testimony on the outcome of Shiley "to accurately present the contract background from which the parties acted, and the views of some witnesses (right or wrong) of the meaning of Shiley." We fail to see any prejudice to Medical.



Medical next contends the Shiley decision was relevant because it supported the opinions of Medical's experts that the Kaster patent had a narrow scope. James Brunton, Medical's independent expert, was not allowed to testify that the Shiley decision was "strong confirmation" of his own opinion on the scope of the Kaster patent. Brunton was, however, allowed to render an opinion independent of Shiley that Medical's valves are not covered by the Kaster patent.

Rule 703 of the Rules of Evidence does not require that otherwise inadmissible evidence must be admitted as substantive evidence merely because it forms the basis of an expert's opinion. See P. Thompson, 11 Minnesota Practice: Evidence §703.01, at 293 (1979). Even if Shiley were admissible



for the limited purpose of explaining the expert's opinion, we cannot say that the trial court prejudicially erred in determining that the opinion's prejudicial and confusing nature outweighed its probative value.

Medical also contends that the Shiley decision was necessary to cross-examine and impeach the University's expert witnesses, who testified that they had not read Shiley or considered it in reaching their conclusion that the Kaster patent had a broad scope. Medical argues that because its experts considered Shiley reliable, the University's experts could have been impeached on their failure to consider portions of the opinion. The trial court's evidentiary ruling allowing inquiry into whether they had read Shiley substantially satisfies Medical's desire to





impeach the University's experts on this basis.

b. Exclusion of Original Complaint

Medical contends that the trial court erred prejudicially in refusing to admit into evidence paragraph 5 of the University's original complaint, which states:

Defendant, in its Private Placement Memorandum dated February 21, 1981, asserted that it had sold approximately 70,000 units of the Lillehei-Kaster Valve, the licensed product.

(Emphasis added). The complaint was subsequently amended to read "a licensed product" (emphasis added). Medical asserts that the use of the singular "the" reflects a concession by the University that the L-K valve was the only licensed product, rather than one of several licensed valves. The trial court concluded that the complaint could



not be regarded as either a factual admission or a prior inconsistent statement. We agree that this was not clearly an admission; even if it is an inconsistent statement, we fail to see how its exclusion prejudiced Medical.

c. Exclusion of the Letter

Medical claims that the trial court erred in refusing to admit into evidence exhibit 207, a letter dated February 1969 from Richard Bartz, the patent attorney who prosecuted the Kaster patent application, to G. Willard Fornell, the University's Patent Administrator at the time. Exhibit 207 was the subject of considerable controversy during the Shiley trial. In the letter, Bartz explained a recent improvement to the L-K valve. He said the specific structure could not be claimed under the existing patent, but that it was broadly



included in the amended claim and a new claim. Medical argues that this letter is an admission that the University's own patent attorney believed that the Kaster patent was narrow in scope and that it did not cover valves with backflow.

Medical first attempted to introduce the letter during cross-examination of Fornell. The University's objection that the letter lacked foundation and was not relevant to this action was apparently sustained by the trial court, although the in-chambers discussion is not included in the record. Medical later attempted to introduce the letter to impeach Kaster. The University argues that the letter could not be properly admitted to impeach Kaster's testimony because Medical failed to lay the necessary foundation under Minn. R.



Evid. 901; Kaster denied ever having received the letter, and Medical did not attempt to lay the proper foundation either through Bartz (whom Medical identified as a witness but did not call), or through Fornell.

Medical also argues the letter represents a party admission, requiring no foundation. At the time the exhibit was offered, Medical made no attempt to show it constituted a party admission. Even if this letter can be considered an admission on the part of the University, its exclusion did not prejudicially affect the outcome of the trial. Ample evidence at trial supported the jury's determination that Medical's valves were covered by the Kaster patent.





## III

Patent Misuse

Medical claims that the license agreement between the parties constitutes patent misuse that renders the Kaster patent unenforceable. Medical bases its argument on three provisions of the license agreement: (1) the "total sales" provision; (2) the grant-back clause; and (3) the payment of royalties on heart valves beyond the expiration of the Kaster patent.

Patent misuse is an affirmative defense, and the party asserting it has the burden of proof. Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp. 739 F.2d 604, 615 (Fed. Cir. 1984), cert. denied, \_\_\_\_ U.S. \_\_\_\_, 105 S.Ct. 516 (1984). The misuse issue was raised in the pleadings and argued at trial, but Medical did not request a special



interrogatory on this issue. Minn. R. Civ. P. 49.01(1) provides that a party waives a right to a trial by jury if a factual issue is omitted from special interrogatories; the court may make a finding regarding the omitted issue or, if it fails to make a finding, will be presumed to have made a finding in accord with the judgment on the special verdict. See Herr & Haydock, 2 Minnesota Practice §49.15, at 436 (1985). The trial court made no findings, so we must imply findings consistent with the verdict.

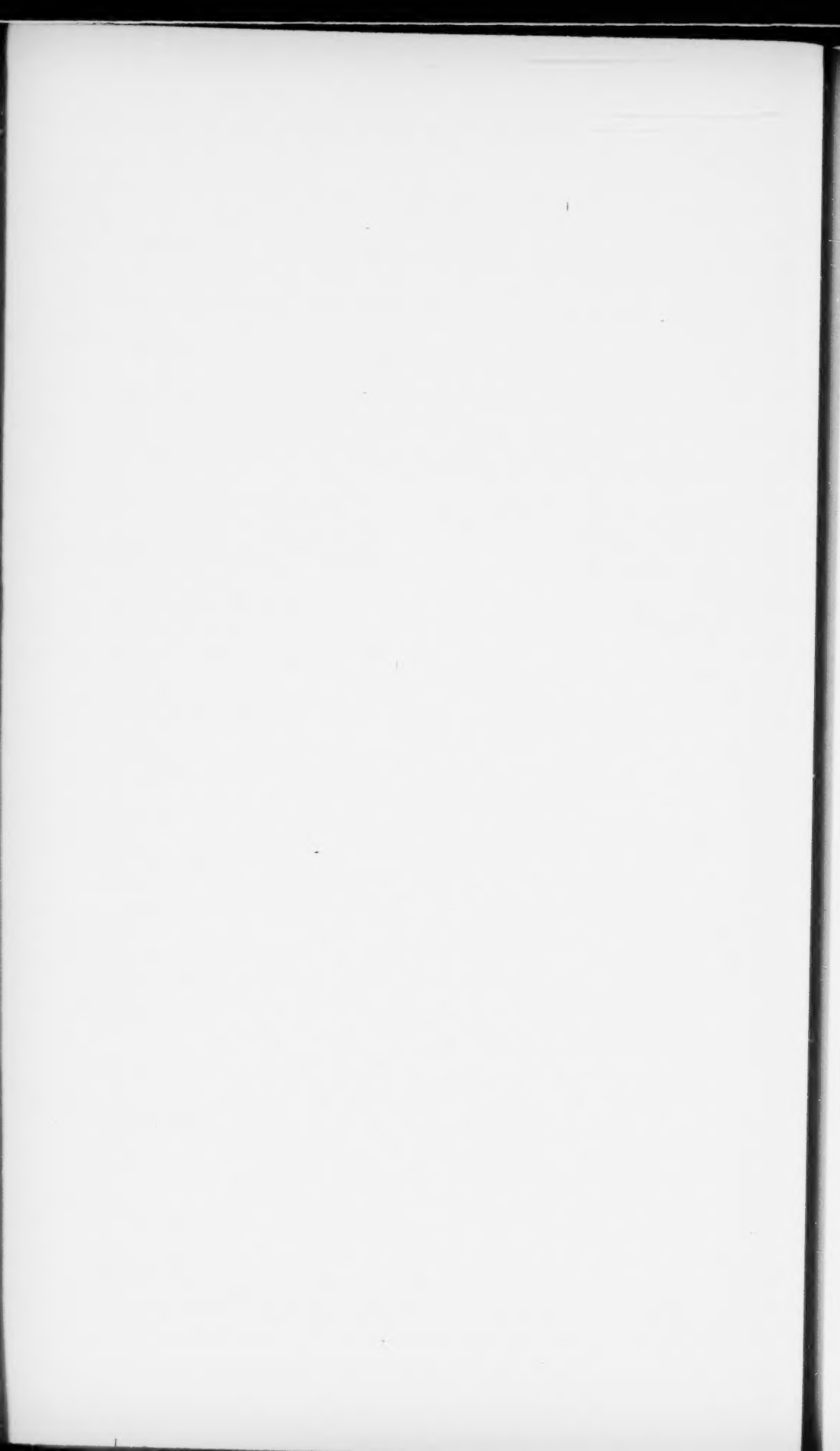
a. The Total Sales Provision

Paragraph three of the original license agreement provides that "Medical agrees to pay to Minnesota for each and every heart valve unit made and sold by Medical a production royalty equal to 5% of the retail sales price \* \* \*." The



1975 amendment to the agreement provides that Medical would resume payment on both the L-K and "its pending all-carbon heart valve \* \* \* in accordance with the terms of the Agreement." The jury found that the license agreement and its amendment obligated Medical to pay royalties on both the L-K valve and the OS/OC valves regardless of whether they were covered by the Kaster patent.

Conditioning the grant of a patent license upon payment of royalties on products that do not use the teaching of the patent constitutes patent misuse. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135 (1969). "Conditioning" consists of "a patentee's insistence on a percentage-of-sales royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use." Id. at 139.



Whether or not "conditioning" exists is a question of fact. See Glen Manufacturing, Inc. v. Perfect Fit Industries, Inc., 420 F.2d 319 (2nd Cir. 1970), cert. denied, 397 U.S. 1042 (1970).

In order to find conditioning under a "total sales" provision, a patent licensor must have (1) insisted upon or demanded the payment of royalties on merchandise which the licensor clearly knew did "not employ \* \* \* the discovery which the claims of the patent define," Zenith, 100 (sic) U.S. at 140, and (2) rejected "licensee proposals to pay only for actual use." Id. at 139; see also Chandler v. Stern Dental Laboratory Co., 335 F.Supp. 580, 583 (S.D. Tex. 1971) (licensor sought royalties on products which, by its own admission, did not come within scope of patent; held to be misuse).





The jury found that the valves were covered by the Kaster patent, and Medical does not dispute the sufficiency of the evidence to support this finding. No patent misuse can exist when the total sales provision requires royalties only from covered products. Even before trial it is clear that neither party was entirely certain whether the Kaster patent covered the L-K valve. The record also indicates that, far from being "conditioned," this total sales provision was the result of considerable bargaining by the parties over a number of terms in the agreement.<sup>3</sup> Given this record, we conclude that the trial court

---

<sup>3</sup> The 1975 negotiations were the only plausible time during which the University could have "conditioned" the license upon payment of royalties on uncovered products. In 1971, which was pre-Shiley, it seems clear everyone believed Kaster covered the L-K valve.



did not clearly err in impliedly finding that the license was not "conditioned" upon payment of royalties on products not covered by the Kaster patent.

b. The Grant-back Clause

The license agreement requires Medical to assign to the University any improvements to the Kaster patent developed by Medical. The inclusion in a patent license of a provision requiring the licensee to assign improvement patents is not per se illegal. Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947). But if a grant-back provision is applied to substantially extend and enhance the scope of the monopoly in the licensed patent, then such application constitutes patent misuse. Duplan Corp. v. Deering Milliken, Inc. 444 F.Supp. 648, 700 (D.S.C. 1977), mod. on other



grounds, 594 F.2d 979 (4th Cir. 1979),  
cert. denied, 444 U.S. 1015 (1980).

The determination of substantial extension depends on technical comparison of the Huffstutler patent with the Kaster patent. We cannot extrapolate evidence from the special verdict or the record to support an implied finding on this issue. Such a technical comparison is peculiarly within the factfinder's province. We therefore remand this issue to the trial court, directing it to make specific findings and to specifically determine whether Medical met its burden of proving the assignment substantially extended the claims of the Kaster patent.

c. Payment of Royalties After  
Expiration of Kaster Patent

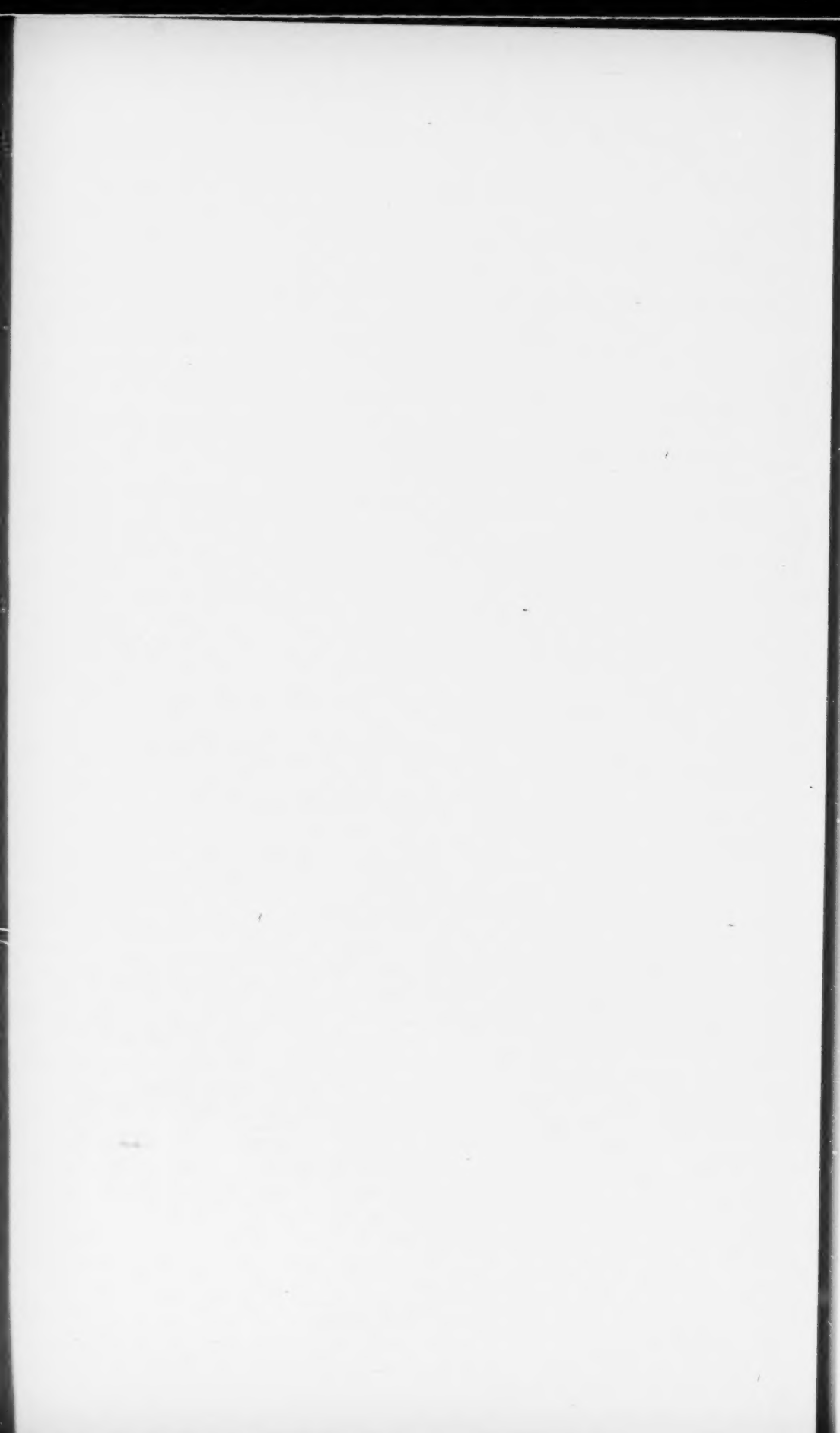
The trial court ordered Medical to pay royalties "on the valves manufac-



tured and sold by Medical \* \* \* which have the same general configuration as the current [L-K] and Omniscience/Omnicarbon" valves until December 22, 1997, the date the Huffstutler patent expires. This construction appears to require Medical to pay royalties on L-K valves which are sold past the expiration date of the Kaster patent. The use of a royalty agreement that projects beyond the expiration date of all the licensed patents is unlawful per se. Brulotte v. Thys Co., 379 U.S. 29, 32 (1964).<sup>4</sup>

---

<sup>4</sup> Since we do not agree that the Huffstutler patent becomes, by assignment, a "licensed patent" under the agreement, see infra, we do not address the University's argument that, through the assignment of an unexpired patent, the "package license" rule of Beckman Instruments, Inc. v. Technical Development Corp., 433 F.2d 55, 61 (7th Cir. 1970), cert. denied, 401 U.S. 976 (1971), applies to the license. See also Hull v. Brunswick Corp., 704 F.2d 1195, 1202 (10th Cir. 1983).





Neither party refers to any testimony in the record which would bear upon a construction of the duration of the license agreement, and the trial court's order does not provide us with either its rationale or the evidence it relied on in construing the duration of the license. The trial court apparently determined the duration of the license based solely upon its reading of the relevant provisions of the license. Because this evidence is documentary, we apply the appellate standard of review on documentary evidence stated in In Re Trust Known as Great Northern Iron Ore Properties, 308 Minn. 221, 243 N.W.2d 302 (1976), cert. denied, 429 U.S. 1001 (1976).

Paragraph 2 of the original license agreement provides that the license shall "extend for the life of the last



of the licensed patents to expire unless earlier terminated in accordance with the provisions hereof" (emphasis added). If the license is to continue in effect until the expiration of the Huffstutler patent, as the trial court determined, then the Huffstutler patent must somehow become a "licensed patent" under paragraph 2 to support the trial court's interpretation.

The license does not define the phrase "licensed patents." However, one of the opening clauses of the license defines "licensed inventions" and provides:

WHEREAS, MINNESOTA is the owner of the entire right, title and interest in and to certain inventions, herein described and sometimes referred to as the "licensed inventions" relating to heart valves which are subjects of Letters Patent of the United States, Nos. 3,367,364 and 3,476,143 [Kaster] and for Letters Patent of Canada,



Serial No. 943,287, and upon which other patent applications have been and may be filed; \* \* \*.

We think it fair to equate the undefined phrase "licensed patents" with the defined phrase "licensed inventions." Paragraph 2 speaks of "licensed patents," and not "licensed inventions," presumably because inventions do not expire but patents do.

Careful analysis of the whereas clause discloses that in order to be a "licensed invention," the "entire right, title and interest to the invention relating to heart valves" had to be owned by the University at the time of the original license. This means that only inventions owned by the University in 1971, when the agreement was signed, can be "licensed inventions" under the clause. The Huffstutler patent did not exist in 1971, nor did the devices it



describes. There is no explicit language indicating that assigned "improvement inventions" upon being patented were to be considered "licensed patents" under paragraph 2. Therefore, the Huffstutler patent, an improvement invention, is not a licensed patent within the meaning of paragraph 2.

The trial court's improper construction of the license created the patent misuse issue addressed above. We hold that the license agreement terminates upon the expiration of the Kaster patent. Properly construed, this portion of the license agreement does not constitute patent misuse.

#### IV

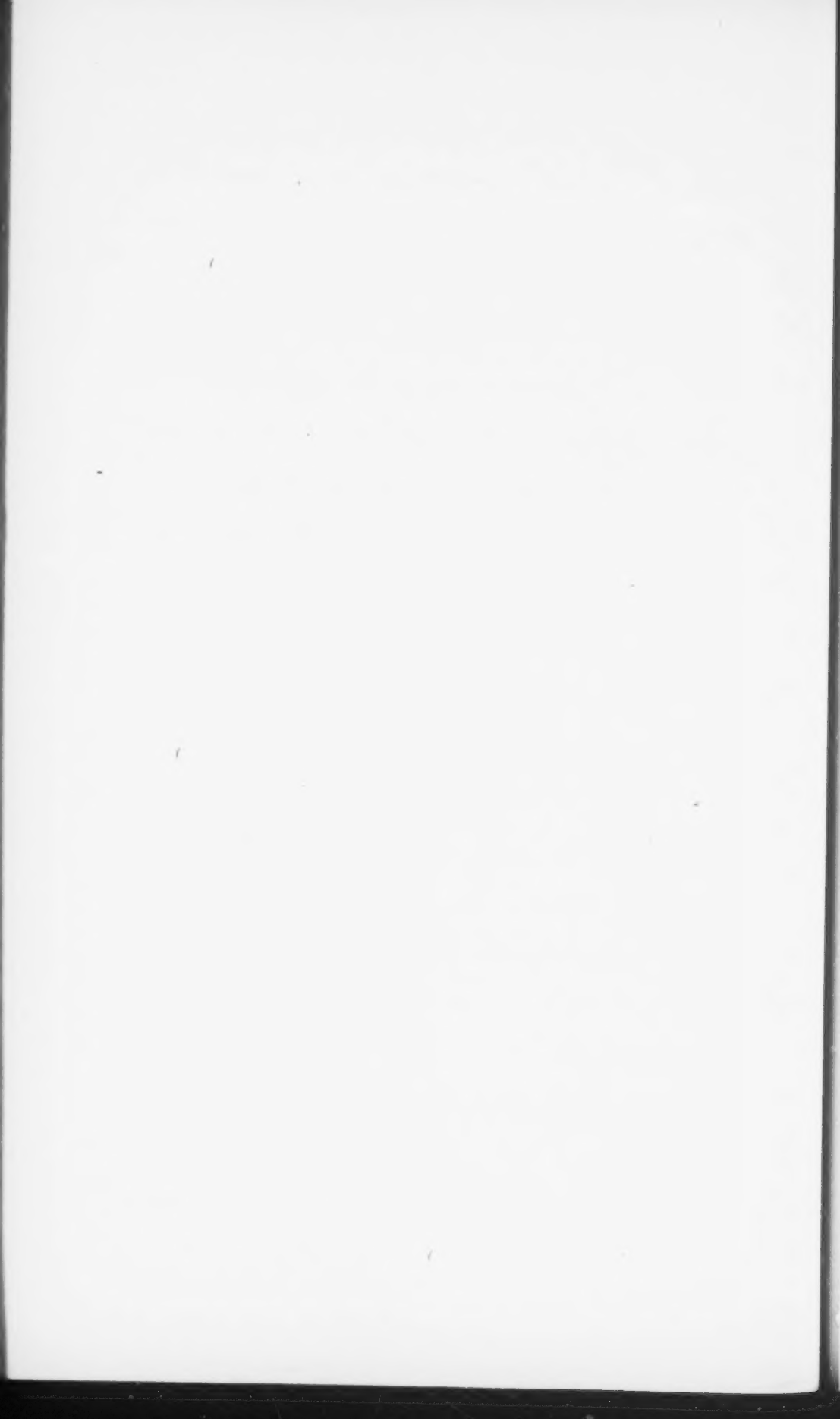
The University cross-appeals the trial court's denial of prejudgment interest for the period from October 1,





1984, through November 30, 1984, the date the verdict was returned. Royalties calculated by the jury included prejudgment interest at the statutory rate of 6 percent through September 30, 1984, the date upon which the last royalty payment was due before trial.

In denying the University interest from the date upon which the last royalty payment was due until the verdict was rendered, the trial court incorrectly relied upon Johnson v. Moberg, 354 N.W.2d 613, 615 (Minn. Ct. App. 1984), pet. for review denied, (Minn. Feb. 19, 1985), for the proposition that prejudgment interest is not recoverable until "final judicial decision on \* \* \* liability \* \* \* occur[ed]." Johnson was a personal injury case in which the supreme court ordered a new trial on liability, but left intact the damages



award from the first trial in 1981. This court disallowed prejudgment interest on the 1981 verdict because the tortfeasors' liability was not ascertainable. Id.

A recent amendment to Minn. Stat. §549.09, subd. 1 (1984), allows prejudgment interest in most cases. See 1984 Minn. Laws ch. 399, §1 (effective July 1, 1984). Medical contends the University is not entitled to prejudgment interest because this cause of action was pending before the effective date of the statute. This argument is meritless. Minnesota law has always allowed prejudgment interest on a final judgment when the damages claim is liquidated or, if unliquidated, "where the damages were readily ascertainable by computation or reference to generally recognized standards such as market value and not



where the amount of damages depended upon contingencies or upon jury discretion (as in actions for personal injury of injury to reputation)." Summit Court, Inc. v. Northern States Power Co., 354 N.W.2d 13, 16 (Minn. 1984) (quoting Potter v. Hartzell Propeller, Inc., 291 Minn. 513, 518, 189 N.W.2d 499, 504 (1971)). Thus, the trial court's award of prejudgment interest for the period up to July 1, 1984 is affirmed.

As to the period from July 1, 1984, to the date the verdict was returned, the University is entitled to interest under §549.09, subd. 1(c). See L.P. Medical Specialists, Ltd. v. St. Louis County, \_\_\_\_ N.W.2d \_\_\_\_, \_\_\_\_ (Minn. Ct. App. Dec. 10, 1985). The trial court's denial of prejudgment interest



from October 1, 1984, through November 30, 1984, is reversed.

## V

The University appeals the trial court's denial of its motion for attorney's fees. Minn. Stat. §549.21 authorizes an award of attorney's fees where the unsuccessful party acted in bad faith, vexatiously, or for oppressive reasons. Nelson v. Engen, 347 N.W.2d 57 (Minn. Ct. App. 1984). A trial court's refusal to award fees will not be reversed absent an abuse of discretion. See National Recruiters, Inc. v. Toro Co., 343 N.W.2d 704 (Minn. Ct. App. 1984). The record supports the trial court's conclusion that Medical's position was not frivolous, interposed for mere purposes of delay or devoid of merit.





D E C I S I O N

The trial court properly refused to give collateral estoppel effect to a prior adjudication of the scope of the Kaster patent.

The trial court's evidentiary rulings were not erroneous.

The evidence supports a finding that the total sales royalty provision does not amount to patent misuse; however, findings must be made as to whether the assignment of the Huffstutler patent substantially extends the claims of the Kaster patent. The license agreement terminates on the date the Kaster patent expires.

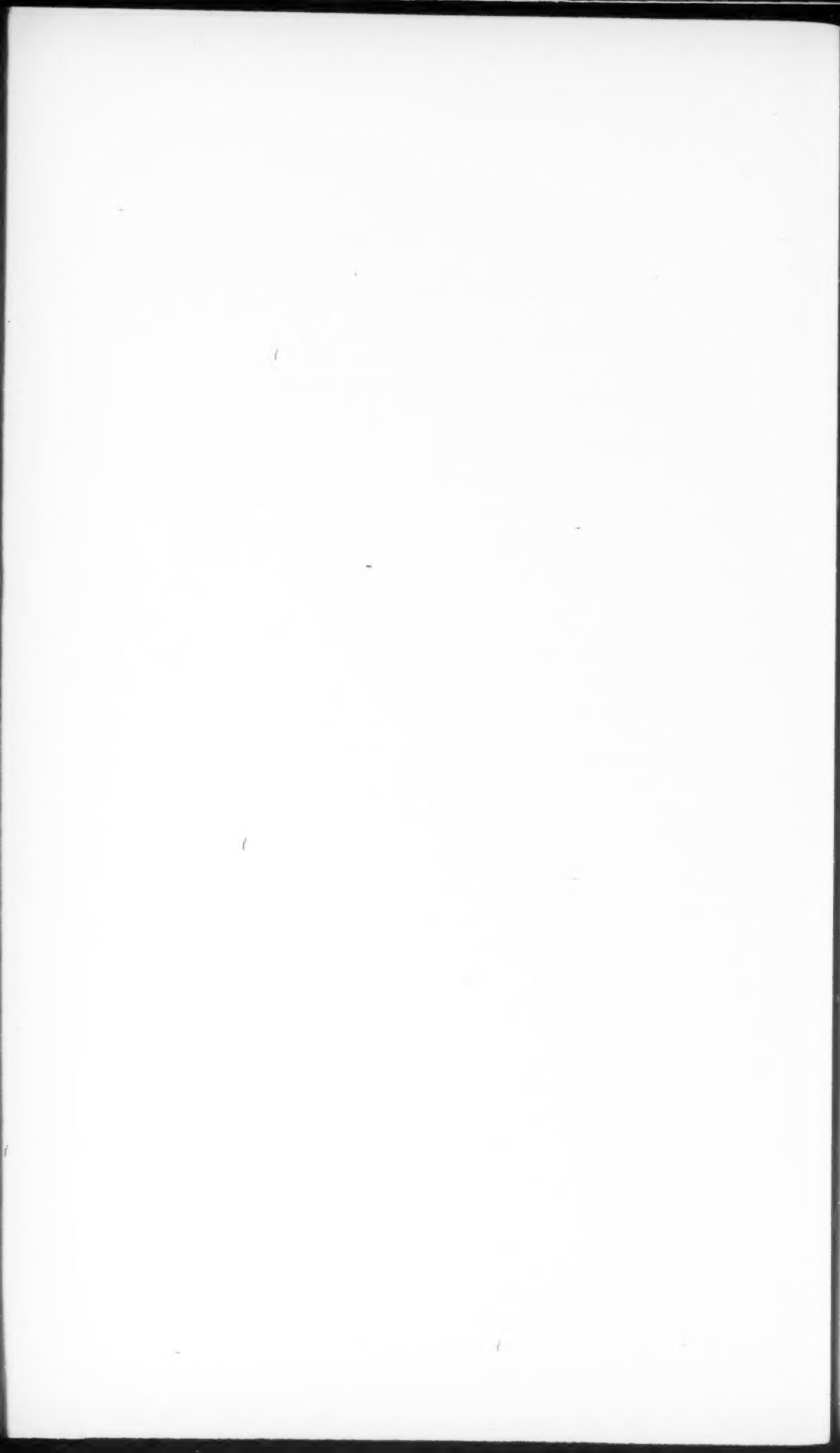
The trial court erred in denying the University prejudgment interest for the period from October 1, 1984, through November 30, 1984.



A-60

The trial court's denial of the University's motion for attorney's fees was well within its discretion.

Affirmed in part, reversed in part, and remanded.



A-61

STATE OF MINNESOTA

IN SUPREME COURT

C7-85-418

The Regents of the University of  
Minnesota,

Respondent,

vs.

Medical Incorporated,

Appellant.

O R D E R

Based upon all the files, records and proceedings herein, IT IS HEREBY ORDERED that the petition of Medical Incorporated for further review be, and the same is, denied.

IT IS FURTHER ORDERED that the conditional petition of The Regents of the University of Minnesota for further review, be and the same is, denied.



A-62

Dated: April 18, 1986.

BY THE COURT

/s/ Douglas A. Amdahl  
Chief Justice





A-63

STATE OF MINNESOTA      \_\_\_\_\_ Supreme Court

  X   Court of Appeals

The Regents of the

University of Minnesota,      C7-85-418

Appellate Court

Respondent,      Case Number

vs

94170

Trial Court

Medical Incorporated,      Case Number

Appelalnt.[sic]

Pursuant to an order of Court heretofore duly made and entered in this cause it is determined and adjudged that the order of the Court below, herein appealed from, to wit, of the District



A-64

Court within and for the County of  
Dakota be and the same hereby is  
Affirmed in part, reversed in part, and  
remanded and that judgment be entered  
accordingly. A certified copy of the  
entry of judgment and the Court's  
decision is herein transmitted and made  
part of the remittitur.

Dated and signed: FOR THE COURT  
May 22, 1986      Attest: Wayne Tschimperle  
Clerk of the Appellate  
Courts

By: \_\_\_\_\_  
Deputy/Assistant Clerk



STATE OF MINNESOTA

DISTRICT COURT

COUNTY OF DAKOTA

FIRST JUDICIAL  
DISTRICT

-----

THE REGENTS OF THE )  
UNIVERSITY OF MINNESOTA, )

Plaintiff, )

vs. )

MEDICAL INCORPORATED, )

Defendant. )

FINDINGS  
AND ORDER  
AND JUDGMENT

File No.  
94170

-----

The above-entitled matter came on for hearing on the motions of both parties for relief following the judgment of the Minnesota Court of Appeals of May 22, 1986 affirming in part, reversing in part, and remanding the matter to the trial court for further findings.

Thomas Tinkham and Leslie J. Anderson appeared as attorneys for the plaintiff; Harold D. Field, Jr., and



Nancy C. Dreher appeared as attorneys for the defendant; John W. Lundquist appeared as attorney for Robert L. Kaster; Elissa G. Mautner, Assistant United States Attorney, appeared as attorney for the United States of America; and Michael R. Cunningham appeared as attorney for Angicor, Ltd.

An award of interest pursuant to the decision of the Court of Appeals and an increased supersedeas bond pending further appeal have been the subject of agreement between the parties and separate orders of this Court.

Each of the remaining matters will be considered in turn:

I. Defendant's motion for a new trial by reason of the claimed disqualification of the trial judge is denied.

This matter has earlier been considered by the Honorable Robert J.





Breunig, Chief Judge of the First Judicial District, and by the Minnesota Court of Appeals. In each case, no basis was found in Minn. Stat. § 542.16 or Rules 63.02, 63.03 or 63.04 of the Minnesota Rules of Civil Procedure for disqualifying the trial judge. Neither do Canon 2 or Canon 3C(1) of the Code of Judicial Conduct reasonably require recusal. The claim is without substance and its renewal specious.

II. Defendant's motion for a new trial because of newly discovered evidence is based on evidence known and available to the defendant before and during the trial and must accordingly be denied; and

The related motions- of the United States, Robert Kaster and Angicor to quash the subpoenas of the defendant are granted.

The parties, at oral argument, agreed that the subpoenas should be enforced only upon the Court finding



apparent merit in the claims of the defendant of newly discovered evidence. Assuming, now, the truth of the claims of the defendant regarding the information to be obtained by the subpoenas, the subpoenas must be quashed. Nothing sought to be obtained is "newly discovered" evidence within the meaning of Rule 60.02 of the Minnesota Rules of Civil Procedure.

To require a new trial, the evidence must be "new." It must be evidence "which with reasonable diligence could not have been found and produced at trial." Minnesota Rules of Civil Procedure, Rule 59.01(4) or Rule 60.02(2) within 30 days of the verdict. The allegations here that Robert Kaster took certain confidential information and records from the defendant when his employment was



terminated was known by the defendant before trial. Medical made these charges in motions over one year before the case came to trial.

The evidence, even if "newly" discovered, would not, in reason, likely result in a different outcome of the trial. Robert Kaster's role as a witness was sharply limited by pretrial orders requiring the plaintiff to use other, independent expert witnesses. Were the jury to have entirely disbelieved the testimony of Kaster at trial, ample additional evidence from several independent witnesses would exist to support the verdict returned. The evidence relied on by the defendant goes only to the credibility of one of numerous witnesses.

The proof now sought by the defendant would do no more than duplicate



evidence it had or could have obtained at the time of trial. It would only further impeach the testimony of Kaster in that it would be cumulative of other impeachment evidence. Gruenhagen v. Larson, 310 Minn. 454, 246 N.W.2d 565 (1976).

The relief sought for a claimed Rule 60.02(3) "fraud" is entirely without foundation. No relationship exists which would make the actions of Kaster, whether as egregious as alleged by the defendant or not, the actions of the plaintiff.

Medical's belated claim that the plaintiff is responsible for a "fraud" because of Kaster's behavior or testimony has no merit. Plaintiff and Kaster's relationship is not one that would charge the plaintiff with responsibility for Kaster's activities,





vis-a-vis the defendant. During pretrial proceedings, the trial itself and in these post-trial proceedings, Mr. Kaster has been represented by separate counsel. Neither he nor the plaintiff have acted in concert -- neither is chargeable with the behavior of the other. With that, plaintiff has neither committed nor permitted to be committed any fraud on the Court. At most, a witness of the plaintiff has been subject to impeachment. Proof has been offered running to the weight and credibility to be given the testimony of a plaintiff's witness. Even if the testimony were to be proven false, the defendant is not entitled to a new trial since the plaintiff does not so "vouch" for the credibility of its witnesses that a fraud is committed by offering the testimony.



No new trial is called for when the moving party is able to show no more than it is better able to impeach on the new evidence than it was at trial. Albertson v. Albertson, 243 Minn. 212, 67 N.W.2d 463 (1954).

This evidence, even assuming its greatest weight in favor of the defendant, is not "so important 'it will probably produce a different result at trial.'" State v. Jacobson, 326 N.W.2d 663 (Minn. 1982); Disch v. Helary, Inc., 382 N.W.2d 916 (Minn. Ct. App. 1986). Neither is there here that set of "extraordinary circumstances" requiring a new trial in order to maintain the integrity of the judicial process. Disch, Id.



III. The grant-back provision of the parties' contract does not substantially extend and enhance the scope of the monopoly and does not constitute patent misuse.

"Medical claims that the License Agreement between the parties constitutes patent misuse that renders the Kaster patent unenforceable." 382 N.W.2d 210. "Patent misuse is an affirmative defense and a party asserting it has the burden of proof." 382 N.W.2d 210.

The Medical claim is in three parts. The first is that the "total sales" provision is unlawful. That claim was denied by the Court of Appeals when it held that there was no error in finding that "the license was not 'conditioned' upon payment of royalties on products not covered by the Kaster patent." 382 N.W.2d 211.



The second part of the claim, that payments of royalties beyond the expiration of the Kaster patent, is addressed by the holding that "the License Agreement terminates upon the expiration of the Kaster patent." 382 N.W.2d 212.

The third claimed misuse, the grant-back clause, is the subject of the remand, "to make specific findings and to specifically determine whether Medical met its burden of proving the assignment substantially extended the claims of the Kaster patent." 382 N.W.2d 211.

The issue then is whether the parties' grant-back provision has been proven by Medical "to substantially extend and enhance the scope of the monopoly in the licensed patent." 382 N.W.2d 211. This, in turn, depends on a





technical comparison of the Huffstutler patent with the Kaster patent.

1. The Kaster patent, No. 3,476,143, and the Huffstutler patent, No. 4,240,161, employ the same elements:

- a) A valve base or base;
- b) A disk or occluder;
- c) An annular portion of the base or flow passage;
- d) A pivot means or pivot;
- e) An upper pair of projections and a lower pair of projections or a means on said base;
- f) A retaining means or confining means.

2. The Kaster '143 patent covers a heart valve that has an annular base with no hinges or cage in which a floating disk pivots between upper and lower projections and on which the sides retain the disk within the valve.



3. The Huffstutler '161 patent employs the same elements as the Kaster patent and addresses by way of limitation a disk of a specified shape and pivot projections in a particular range of measurements.
4. The independent claims of the Kaster patent cover the Huffstutler patent.
5. The Huffstutler patent covers the defendant's Omniscience and Omnicarbon heart valves.
6. The independent claims of the Kaster patent cover the defendant's Omniscience and Omnicarbon heart valves.
7. The Huffstutler patent does not substantially extend the claims of the Kaster patent. It is an improvement and should be assigned to the plaintiff.



- a) By the specificity of its claims, the shape of the disk and the angles of open and closed positions, the Huffstutler patent limits the invention to a specific design of the Kaster invention.
- b) Huffstutler discloses the same basic valve as Kaster, the contribution of Huffstutler being a concave/convex disk.
- c) Since, according to the former U.S. Commissioner of Patents and Trademarks, Dr. Banner, the claims of Kaster cover, among other



things, a concave/convex disk, trial transcript 4072-73, the Huffstutler invention is covered by Kaster. Huffstutler, rather than extending the claims of Kaster, operates, as the plaintiff has claimed, as a "subpart of the field occupied by the Kaster patent."

- d) Medical has, in its 510K notification to the U.S. Food and Drug Administration, held out the Huffstutler invention as an improvement without new design, material or processes. Dr. Huffstutler himself, in accompanying





correspondence, called the improved version L-K valve a valve "substantially equivalent" to the standard L-K valve.

8. The defendant has not sustained its burden of proof of showing substantial extension of the claims of the Kaster patent in the face of the greater weight of the evidence that no extension exists and its own assertion that valves using the design were substantially equivalent to the standard. Duplan Corp. v. Deering Milliken, Inc., 444 F.Supp. 648 (Dist. of So. Car. 1977) mod. on other grounds, 594 F.2d 979 (4th Cir. 1979), cert. den., 444 U.S. 1015 (1980).



A-80

LET JUDGMENT BE ENTERED

ACCORDINGLY.

Dated this 28 day of August, 1986.

BY THE COURT:

/s/ Jack A. Mitchell

Jack A. Mitchell

Judge of District Court

I hereby certify that the foregoing  
Order shall constitute the Judgment of  
this Court.

Date: September 2nd 1986

ROGER W. SAMES

COURT ADMINISTRATOR

(Seal)

By /s/ Betty Kulzer

Chief Deputy-



A-81

STATE OF MINNESOTA  
IN COURT OF APPEALS

C8-86-1717

CX-86-1718

Dakota County      Forsberg, Judge

The Regents	Thomas Tinkam
of the	Leslie J. Anderson
University	Dorsey & Whitney
of Minnesota	2200 First Bank Place E.
Respondent,	Minneapolis, MN      55402

vs.

Medical	Harold D. Field, Jr.
Incorporated	Nancy C. Dreher
Appellant.	Robert P. Thavis
	Leonard, Street
	& Deinard
	Suite 1500



A-82

190 So. 5th St.

Minneapolis, MN 55402

Charles A. Bassford, Jr.

Baker & Bassford, P.A.

405 Edina

Executive Plaza

5200 Willson Rd.

Edina, MN 55424

Filed May 12, 1987

Wayne Tschimperle, Clerk

Minnesota Appellate Courts

### S Y L L A B U S

1. Appellant is not entitled to a new trial based on the claimed disqualification of the trial judge.

2. In the absence of extraordinary circumstances, cumulative impeachment evidence involving conduct of a nonparty





which was not newly discovered and would not have affected the trial outcome was not an adequate basis for granting a new trial.

3. The trial court did not err in determining that there was no patent misuse since assignment of the Huffstutler patent under the license agreement did not substantially extend the scope of the Kaster patent.

4. The trial court did not err in its construction of the license agreement provisions governing calculation of post-judgment royalties.

**Affirmed.**

Heard, considered and decided by Forsberg, Presiding Judge, Randall, Judge, and Stone, Judge.\*



O P I N I O N

FORSBERG, Judge

This is an appeal from the trial court's decision on patent issues remanded from this court on a prior appeal and from denial of a motion for a new trial.

The original action was brought by respondent Regents of the University of Minnesota (University) against appellant Medical, Incorporated (Medical) for royalties and specific performance under a patent license agreement. The patent was obtained by Robert Kaster in 1969. The agreement licensing the patent to Medical was entered into on October 19, 1971, and amended November 20, 1975.

A jury trial was held from October 15 to November 30, 1984. The jury returned a verdict for the University,

---

\* Acting as judge of the Court of Appeals by appointment pursuant to Minn. Const. art. 6, § 2.



and judgment was entered accordingly. Medical subsequently appealed from the judgment, but prior to the hearing on appeal, moved the trial court for a new trial under Minn. R. Civ. P. 60.02 (2), (3) and (6). The trial court denied relief based on lack of jurisdiction while the case was on appeal.

This court affirmed in part, reversed in part, and remanded the case to the trial court on February 11, 1986. The trial court subsequently denied Medical's motions for a new trial, and determined the remanded issue and a new issue concerning the calculation of royalties against Medical. We affirm.

#### FACTS

The history of this case is outlined in Regents of the University of Minnesota



v. Medical, Inc., 382 N.W.2d 201 (Minn. Ct. App. 1986), and will not be repeated here.

Prior to the hearing on appeal from the trial court's judgment, Medical filed a Rule 60.02 motion with the trial court asking for a new trial. Medical claimed entitlement to a new trial because the trial judge had failed to recuse himself from the case even though his mother-in-law had been a Medical employee 8 years prior to this action, had been laid off, and had sued for and was denied worker's compensation. Medical served a notice to remove, which motion was denied as moot since the case was on appeal. Medical then sought to remove the judge from further consideration of the case, which request was denied by the Chief Judge of Dakota County. This court denied Medical's motion to have the case





remanded for consideration of its new trial motion. Medical then sought a writ of prohibition to prevent the judge from hearing the remanded issues, which was also denied by this court.

Medical also claimed entitlement to a new trial based on newly discovered evidence of perjury and destruction of subpoenaed documents by Robert Kaster, inventor and witness for the University at trial. Medical claimed to have discovered, from a former co-worker of Kaster's, that Kaster had stolen secret documents from Medical when he left the company in 1975 and had lied about the theft at his deposition. By way of affidavit, Kaster's co-worker claimed to have observed Kaster destroy stolen documents after he was ordered by the court to produce them.



An additional issue raised during pendency of the appeal concerned computation of royalty payments. After the trial Medical had been ordered to submit royalty reports to the University every six months. The University claimed that contrary to the terms of their contract, Medical had taken certain credits and deductions in three reporting periods, from August 1, 1984 to January 31, 1986. The University claimed it was owed \$685,691 in post-trial royalties, while Medical contended its accounting procedure was accurate and reflected the amount owed as \$31,348.

On remand from this court, the trial court considered Medical's Rule 60 motions, the issue of the license agreement grant-back provision and its effect on the scope of the Kaster patent, and



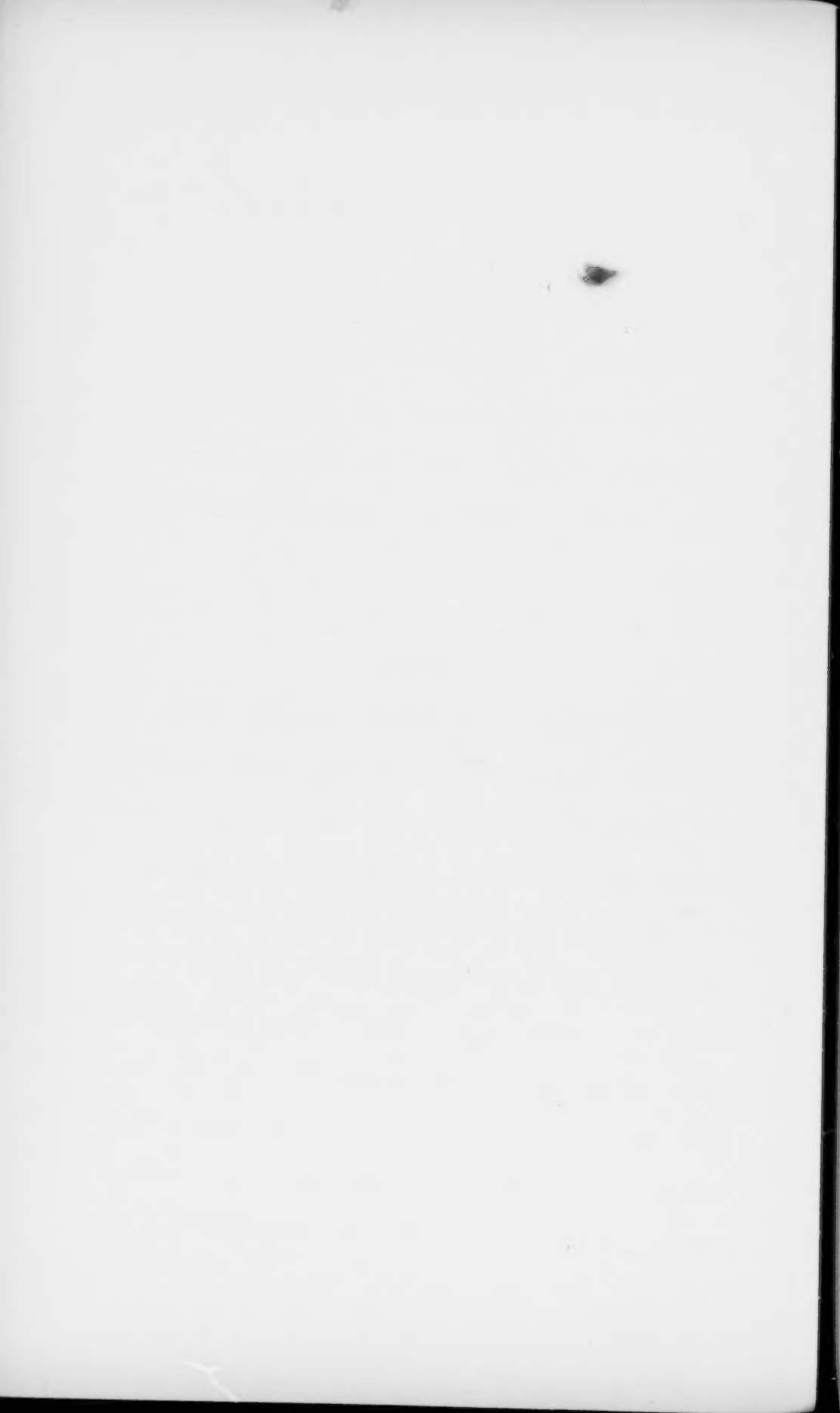
the royalty calculation dispute. The trial court found for the University in all respects.

Medical moved for amended findings and for a new trial on these issues. Following denial of its motion by the trial court, Medical appealed to this court.

### ISSUES

1. Did the trial court err in denying Medical's Rule 60.02(2) motion for a new trial based on newly discovered evidence that the trial judge's mother-in-law was previously antagonistically involved with Medical, Inc.?

2. Did the trial court err in denying Medical's Rule 60.02 (2), (3) and (6) motions for a new trial based on newly discovered evidence of Robert Kaster's alleged theft and destruction of



subpoenaed documents and his subsequent perjury on this matter?

3. Did the trial court err in determining that assignment of the Huffstutler patent under the license agreement did not substantially extend the scope of the Kaster patent?

4. Did the trial court err in its construction of the provisions of the license agreement governing calculation of post-judgment royalties?

## ANALYSIS

### I.

Appellant moved for and was denied relief under Minn. R. Civ. P. 60.02 on the basis of newly discovered evidence that the trial judge failed to disclose that eight years ago his mother-in-law had worked for Medical, had been laid off, and had sought and was denied





worker's compensation benefits. The trial court denied Medical's motions under 60.02(2), noting first that the matter of the alleged disqualification had been previously decided in the negative by both the Chief Judge of Dakota County and by the Court of Appeals. We agree with the trial court that there is no basis in Minn. Stat. § 542.16 (1986), Minn. R. Civ. P. Rules 63.02, 63.03 or 63.04, or Canon 2 or Canon 3C(1) of the Code of Judicial Conduct for disqualifying the trial judge. The claim is without substance and its renewal specious.

## II.

Appellant also moved for and was denied relief under Minn. R. Civ. P. 60.02(2), (3) and (6) on the basis of newly discovered evidence that Robert



Kaster had stolen and destroyed secret documents from his former employer, Medical, which documents detailed advances in heart valve manufacturing made by Medical.

60.02(2)

Minn. R. Civ. P. 60.02(2) provides that a judgment may be vacated if a party discovers new evidence which by due diligence could not have been discovered in time to move for a new trial under Rule 59.03. In order for relief from judgment to be granted where there is newly discovered evidence, such evidence must be relevant and admissible at trial, must be likely to have an effect on the result of a new trial, and must not be merely collateral, impeaching, or cumulative. Gruenhagen v. Larson, 310 Minn. 454, 459, 246 N.W.2d 565, 569 (1976). When reviewing denial of a motion for a new



trial based on newly discovered evidence, this court need only determine whether the trial court's refusal to do so involved the violation of a clear legal right or a manifest abuse of judicial discretion. Minder v. Peterson, 254 Minn. 82, 92, 93 N.W.2d 699, 707 (1958), quoting Vietor v. Costello, 203 Minn. 41, 46, 279 N.W. 743, 745 (1938).

Appellant's motion for relief under Rule 60.02(2) was based on new evidence concerning Robert Kaster's alleged theft and destruction of documents stolen from Medical when Kaster left Medical's employ in 1975. The trial court denied the motion based on a determination that the evidence was not newly discovered, that even if it was newly discovered it would not have affected the outcome of the



trial, and that in any event it was merely cumulative impeachment evidence. We agree.

In bringing its Rule 60.02(2) motion, Medical claimed that after the trial of this case, it obtained critical new information from a former employee of Angicor (a competitor of Medical and the company with which Kaster is now associated). By way of affidavit, Monte Lawrence stated that during the time of Kaster's deposition, he observed Kaster shredding and altering numerous documents he believed to have been stolen from Medical relating to the design, manufacture, and testing of Medical's heart valves.

Medical claimed that this information was newly discovered evidence. The trial court correctly noted that to require a new trial, the evidence must be





such that with reasonable diligence could not have been found and produced at trial. Minn. R. Civ. P. 59.01(4) and 60.02(2). It has been held that diligence requires the use of available discovery tools as well as reasonable investigation efforts. Brown v. Bertrand, 254 Minn. 175, 184-85, 94 N.W.2d 543, 550 (1959).

From a review of the record, it is clear that Medical suspected Kaster had stolen secret documents as far back as 1983. As the trial court noted, Medical charged Kaster with theft of its documents in motions over a year before the case came to trial. In an affidavit accompanying Medical's motion for a protective order in 1983, Marshall Kriesel, then the president of Medical, stated that from his review of their files and current Angicor developments, he believed



Kaster had stolen secret documents from Medical. Indeed, in his 1984 deposition, in response to a request to produce any stolen documents, Kaster denied he had any in his possession.

Medical's argument that the evidence was unobtainable because Kaster deceived Medical into believing it was unavailable is not acceptable. Once theft was suspected, further investigation was open to Medical and the assertion that investigations were suspended in reliance on representations from the very person suspected of the theft is unconvincing. What Medical has here is new evidence to support old suspicions; evidence that was available to it before trial through reasonable investigative efforts.

Medical argues that evidence showing that Kaster, in 1975, had stolen documents detailing Medical's advances in



heart valve development constitutes significant affirmative evidence which, if known, would likely produce a different result in a new trial. Medical argues alternatively that even if it is only impeachment evidence, it should be allowed as a basis for a new trial because these are "extraordinary" circumstances warranting such relief.

Appellant argues that evidence of Kaster's theft would likely result in a different outcome at trial because it would contradict the University's argument and Kaster's testimony on the two main issues at trial: 1) whether the 1971 license agreement required Medical to pay royalties on "each and every" valve it sold, regardless of whether it was covered by the Kaster patent, and 2) whether the Kaster patent covered Medical's L-K, OS, and OC heart valves.



Appellant's argument reduces the entire issue of patent coverage to a contest of credibility between Marshall Kriesel, Medical's former president, and Robert Kaster. While Kaster was an important witness, he was only one of four witnesses who testified for the University on the patent coverage issue. Three expert witnesses testified as to the coverage of the patent, and indeed, as a result of motions by Medical to prevent Kaster from seeing confidential documents, Kaster was unable to testify on this issue as fully as the three experts. Far from being an issue of credibility, the question of the scope of the Kaster design was largely a technical one, to which experts on both sides testified. While credibility is, of course, always a factor, the ultimate question was not who was telling the





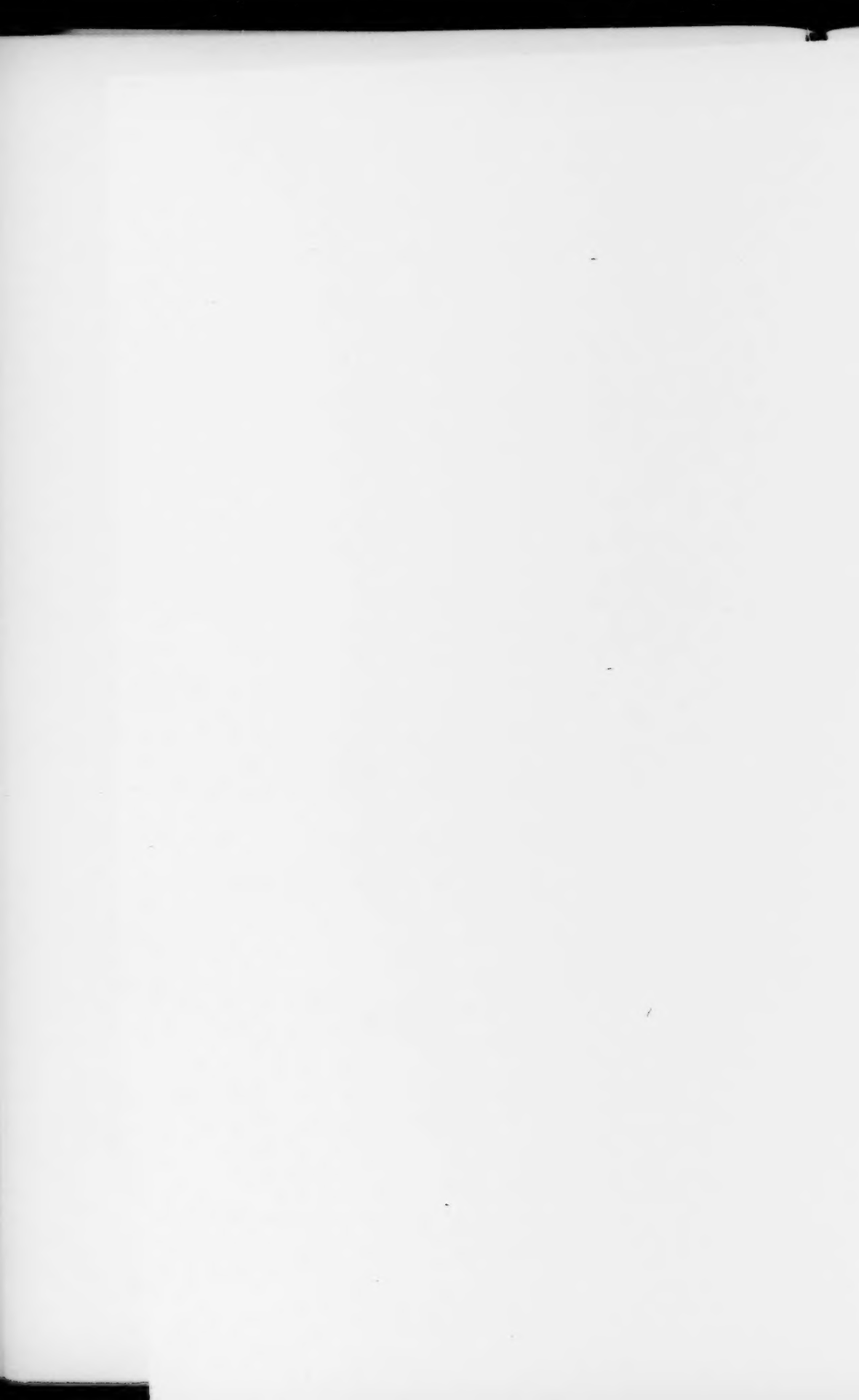
truth, but rather, which descriptive, comparative analysis was more accurate.

On the issue of construction of the license agreement, the University argued at trial that because the Kaster patent was so valuable to Medical, in 1971, Medical agreed to a provision in the licensing agreement requiring them to pay royalties on "each and every" heart valve manufactured, regardless of whether it was covered by the Kaster patent. Medical argued that it would never have agreed to pay royalties on whatever valves it might develop in the future just to obtain license to the Kaster patent, claiming that the Kaster patent was not that valuable since it needed substantial improvements. Medical argues that the new evidence of Kaster's theft of documents detailing advances made by Medical in heart valve manufacturing



serves to refute the University's argument, while bolstering its own position because it is affirmative proof of the existence and need of improvements to the patent. While the relevance of the 1975 theft to the intent of the parties and the contract they entered into in 1971 is doubtful, even if this evaluation of the evidence is correct, it is merely cumulative of other evidence offered in support of Medical's position and not necessarily of such importance that a different outcome at trial would likely result.

While the evidence appears to have little, if any, substantive value, it may have had great impeachment value. Although newly discovered evidence that merely impeaches a witness is generally not the basis for a new trial, there are exceptions in the most extraordinary cir-







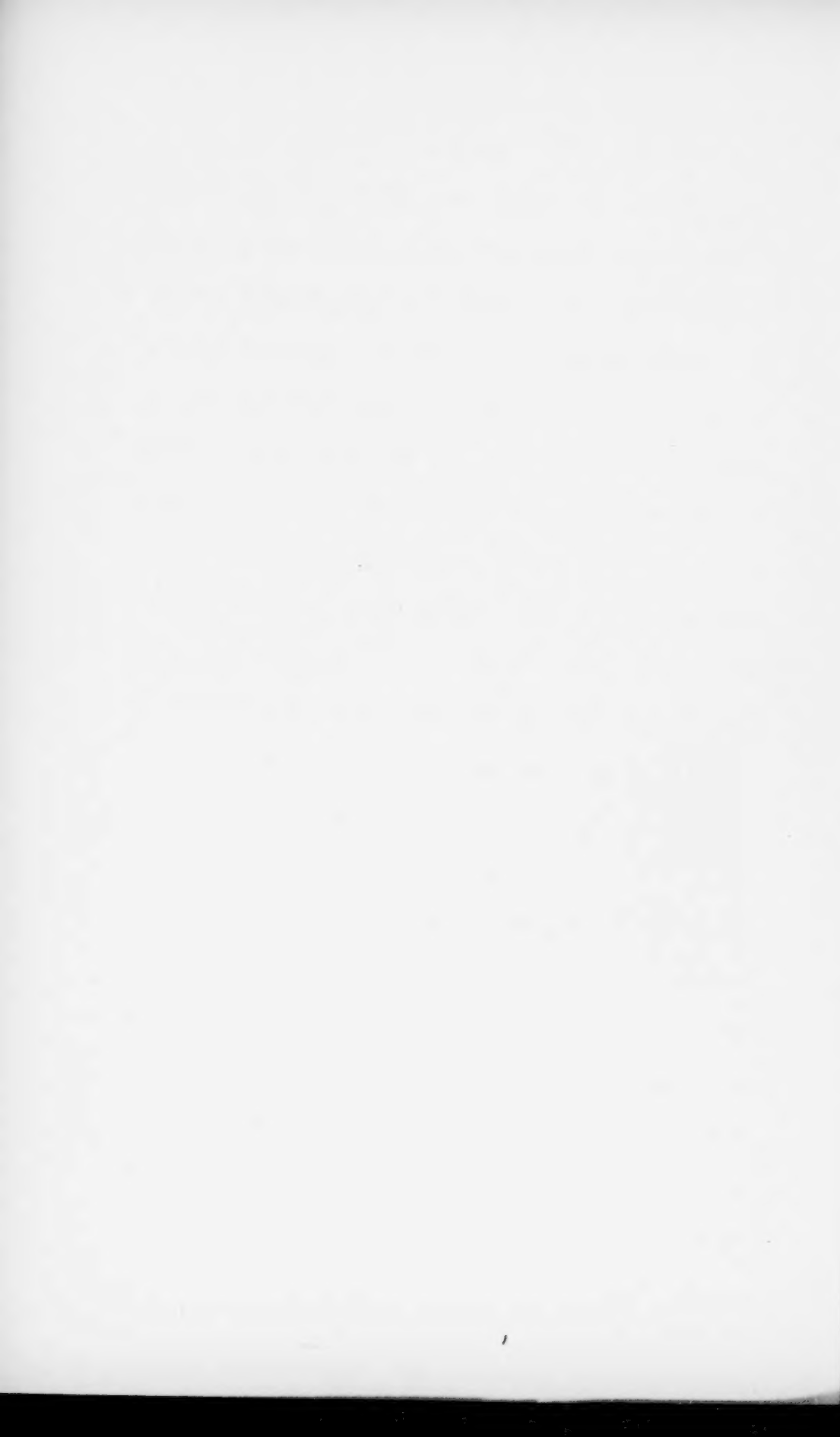
cumstances. Albertson v. Albertson, 243 Minn. 212, 217, 67 N.W.2d 463, 467 (1954); Disch v. Helary, Inc., 382 N.W.2d 916, 919 (Minn. Ct. App. 1986), pet. for rev. denied (Minn. Apr. 24, 1986). Medical's assertion that they were denied an opportunity to properly impeach an important witness concerning a collateral matter does not present an extraordinary circumstance warranting the relief requested. Where, as in this case, there is doubt whether "newly discovered" evidence would materially affect the result or could have been discovered before trial by the exercise of reasonable diligence, this court cannot justifiably hold that the trial court abused its discretion in ruling as it did. Albertson, 243 Minn. at 217-18, 67 N.W.2d at 467.





Minn. R. Civ. P. 60.02(3) provides that relief from a final judgment will be authorized if fraud, misrepresentation, or other misconduct of an adverse party exists. To prevail, the moving party must establish by clear and convincing evidence that the adverse party engaged in fraud or other misconduct which prevented it from fully and fairly presenting its case. Stridiron v. Stridiron, 698 F.2d 204, 206-07 (3rd Cir. 1983); e.g., Rozier v. Ford Motor Co., 573 F.2d 1332, 1339 (5th Cir. 1978).

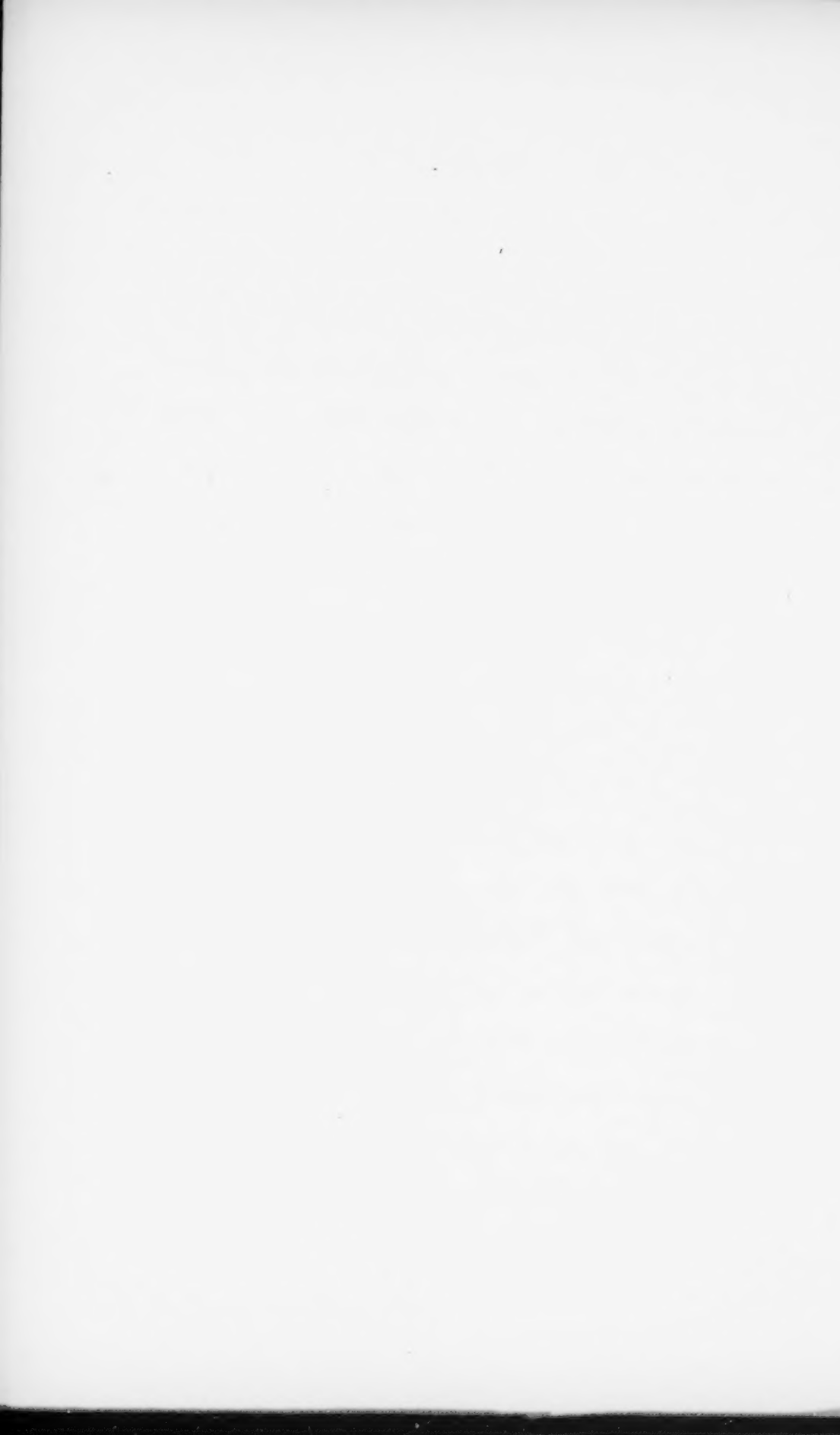
Medical's request for relief under 60.02(3) was based on the "discovery" of Kaster's theft and destruction of Medical's secret documents detailing advances in heart valve manufacturing, and his subsequent pre-trial deposition perjury concerning the fact of the theft. The basis for relief under



60.02(3) is misconduct of an adverse party. Metlyn Realty Corp. v. Esmark, Inc., 763 F.2d 826, 832 (7th Cir. 1985).

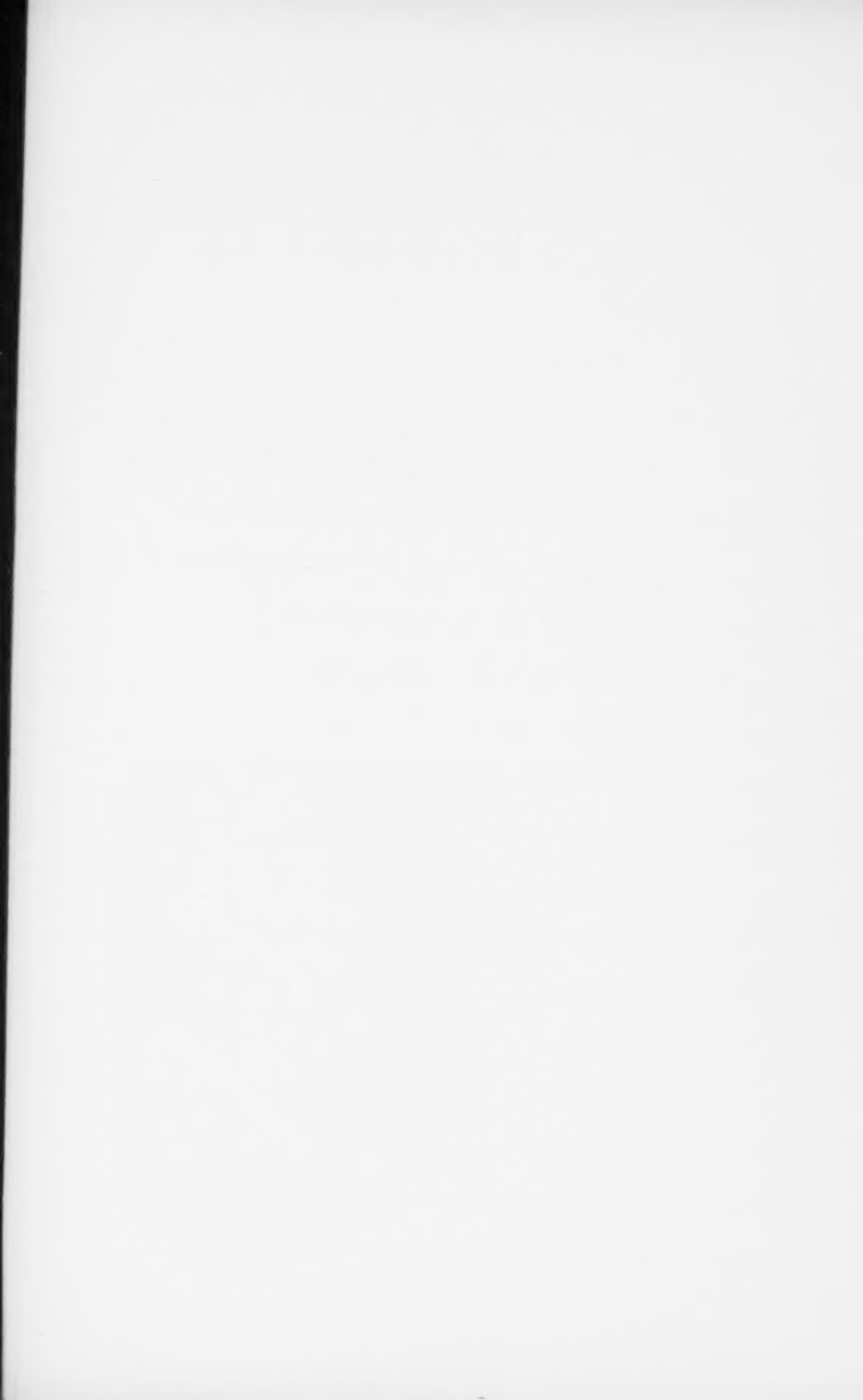
Medical strains unsuccessfully to construe Kaster's involvement in this case so as to identify him as an adverse party. However, a person is not a party merely because he is directly interested in the result. State v. Tri-State Telephone and Telegraph Co., 146 Minn. 247, 251, 178 N.W. 603, 604 (1920). A "party" is one who has the right to control the proceedings, examine and cross-examine the witnesses, and appeal from the order or judgment finally entered. Id. Robert Kaster was not a party to this action, he was merely a witness, and a party does not vouch for its witnesses. Metlyn, 763 F.2d at 833.

Equally strained is Medical's agency argument, which attributes Kaster's



conduct to the University because Kaster was an employee of the University at the time of trial. The alleged theft of documents, however, did not occur while Kaster was employed by the University. Neither was there any showing that the subsequent misconduct was directed or known by the University, or in any way connected with Kaster's employment.

Rule 60.02(3) also requires that the misconduct have gone to the ultimate issue of the case. See Harre v. A.H. Robins Co., 750 F.2d 1501, 1503 (11th Cir. 1985), Simons v. Gorsuch, 715 F.2d 1248, 1253 (7th Cir. 1983). The trial court determined that facts of document theft and related pre-trial perjury added no more to this action than the opportunity for impeachment. We agree that, although strong impeachment evidence, the facts lend little to resolution of the



substantive issues here. Further, it is doubtful whether Kaster's misconduct denied Medical the opportunity to fully present its case: since the misconduct here was not that of a party; it involved a merely collateral issue and had little to do with the ultimate issues of the case; Medical failed to use what evidence of misconduct it possessed to impeach the witness so accused; and there was substantial other evidence to support the verdict. Under the circumstances, the trial court did not abuse its discretion in denying relief under 60.02(3).

60.02(6)

Rule 60.02(6) provides that relief from the final judgment may be permitted for any reason justifying relief from the operation of the judgment. Relief under this rule requires a showing of "extraordinary circumstances," on the basis of





a judicial balancing of the need for finality and the need to do justice in the individual case. Ackermann v. United States, 340 U.S. 193 (1950).

Medical argues that Kaster's perjury, document destruction, and violation of a court order to produce documents is gross misconduct which should not be rewarded by enforcement of this judgment. Relief under 60.02(6) is required here, Medical asserts, to maintain the integrity of the judicial process.

While Kaster's actions, if proved, are indeed reprehensible, the granting of a new trial on that basis places undue importance on the significance of his actions. First, these are not "extraordinary circumstances" warranting relief from the judgment. A missed opportunity to adequately impeach one of many wit-



nesses is not extraordinary. It is, in fact, relatively unimportant to the issues tried and result reached in this case. Second, one should question the effect on the integrity of the judicial process of subjecting the system to another trial of this case, where the only new evidence would be on an incidental, collateral matter. Third, while it may be unfortunate that Kaster stands to benefit from the University's success in this matter, justice does not require a new trial where the University sufficiently proved its case, and Kaster's conduct is currently the subject of a criminal investigation.

### III.

On remand after the first appeal, the trial court decided that Medical had not met its burden of proving that



assignment of the Huffstutler patent to the University constituted patent misuse by substantially extending the claims of the Kaster patent.

Medical argues that the trial court erred in not finding patent misuse because the Huffstutler patent substantially enhances the physical and temporal scope of the Kaster patent. Medical's argument as to extension of the physical scope of the patent involves a comparative analysis presented for the first time on appeal. Medical offered no evidence or testimony to support this argument at trial. Since the trial court was instructed to look at the record and determine whether Medical had met its burden of proving patent misuse at trial, consideration of this new analysis is precluded.

In the first appeal, this court



described the remanded issue as one "peculiarly within the factfinder's province." Regents, 382 N.W.2d at 211. Treating this as an issue of fact is particularly appropriate in this case, where the scope of a patent claim is disputed, and in need of explanation by resort to extrinsic evidence. McGill, Inc. v. John Zink Co., 736 F.2d 666, 671-72 (Fed. Cir.), cert. denied, 469 U.S. 1037 (1984). The findings of the trial court on this issue of fact should not be disturbed unless they are clearly erroneous, either without evidentiary support or induced by an erroneous view of the law. Reserve Mining Co. v. State, 310 N.W.2d 487, 490 (Minn. 1981).

There is ample support in the testimony of three experts at trial to support the trial court's findings. In addition, as this court noted on the first appeal,





the jury specifically found that the OC and OS (Huffstutler) valves were covered by the Kaster patent. The jury finding that the valves were covered by the Kaster patent necessarily implies that the Huffstutler patent was merely an improvement patent and did not substantially extend the scope of the Kaster patent. This court was apparently disturbed, however, that there was no specific jury question on the issue of substantial extension of the Kaster patent, and refused to imply an answer. A technical comparison had been thoroughly provided at trial, and the jury determination that the physical scope of the Kaster patent covered the OC and OS (Huffstutler) valves is now supported by the trial court's specific findings as derived from the record.

The trial court did not address the



temporal scope issue directly on remand. The University argues that the issue of temporal scope was not remanded and need not have been addressed by the trial court. Medical argues that a determination of patent misuse by extension of the scope of a patent necessarily included an analysis of possible temporal scope extension.

The trial court was to determine if there had been patent misuse by assignment of the Huffstutler patent to the University. As the court stated in the first appeal, if the grant-back provision is applied to substantially extend the scope of the patent monopoly, there is patent misuse. Regents, 382 N.W.2d at 211. One way the scope of the patent might be substantially enhanced is by extending the temporal scope of the patent, that is, by extending the time



under which royalties may be due. Expansion of the temporal scope of the patent by the grant-back provision is a legitimate concern, and the determination of which is both appropriate and necessary to a determination of whether there has been patent misuse.

The trial court determined that the Huffstutler patent was an improvement patent and, as such, within the scope of the Kaster patent. This results in the Huffstutler patent being assigned to the University under the grant-back provision in the license agreement. The Kaster patent and the license agreement expire in 1986. The Huffstutler patent expires in 1997. The problem, as seen by Medical, is that after the Kaster patent expires, the University will have the Huffstutler patent for eleven more years. Medical claims this results in



patent misuse because it extends the patent monopoly beyond the expiration of the patent. Medical relies strongly on Brulotte v. Thys Co., 379 U.S. 29 (1964) for the proposition that using the leverage of a patent to obtain benefits for the patentee after the patent expires is patent misuse per se. What was determined illegal, and what Brulotte precludes, is the use by the patentee of a license agreement to extend the scope of the patent's monopoly past the date of the patent expiration. Id. at 33. In Brulotte, this was achieved by contracting for payment of royalties after the patent had expired. Id. at 30. The assignment of patents in license agreements has never been determined to be misuse per se. Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637, 648 (1947).





Transparent-Wrap makes clear that the mere existence of a grant-back provision, such as the one used by the University here, is not enough to prove patent misuse. Patent misuse exists only if the condition in the license agreement violates some other principle of law or public policy. Id. at 643. For example, if the patent license agreement is used to violate antitrust laws by fixing prices or by conditioning a license on agreement to buy unpatented products, the agreement would be patent misuse. Again, if by "the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry [were] systematically funneled into the hands of the original patentee," there would be patent misuse. Id. at 647. There is nothing of this nature alleged in this case. Medical asserts that the mere



assignment of the Huffstutler patent under the license agreement is patent misuse. Clearly, under Transparent-Wrap, this is incorrect.

There is no patent misuse in this case because, as this court has already determined, the Kaster patent and the license agreement expired in 1986. Regents, 382 N.W.2d at 212. When the Kaster patent expired in 1986, it passed into the public domain. The University has not required payment of royalties past this date. After the Kaster patent expires, the University will retain the Huffstutler patent. The parties will have to enter into a new license agreement at that time if Medical desires to use the Huffstutler patent. Medical agreed to this when it entered into the license agreement with the University, and there is no violation of law or



public policy to prevent its enforcement.

IV.

The final issue in this case involves a dispute concerning the calculation of post-judgment royalties.

During the pendency of the first appeal and remand of this case, Medical Incorporated was obligated to submit royalty reports to the University of Minnesota for three periods: August 1, 1984 to January 31, 1985; February 1, 1985 to July 7, 31, 1985; and August 1, 1985 to January 31, 1986. The reports submitted to the University for those time periods claimed

1.) A credit for royalties or heart valve sales that were included by the jury in its damage award and thus included in the judgment, but



which were subsequently returned to Medical's ownership, but not its physical possession;

2.) a 25% deduction for a "distributor inventory" credit, which resulted from a post-trial restatement of sales records for the period of Aug. 1, 1984 to Jan. 31, 1986 that reflected sales at the time of implant rather than at the time of transfer to the distributor, which method was not the previously agreed upon practice; and

3.) a deduction of \$21,885.00 for patent filing costs incurred prior to July 31, 1984, which costs Medical had failed to include as part of its pre-trial itemized deductions and thus was precluded





from introducing at trial.

All of these credits were denied by the trial court. As stated in Creative Cookware v. Northland Aluminum Products, 678 F.2d 746, 750 (8th Cir. 1982), the trial court's assessment of damages in patent infringement cases is given great deference. An appellate court must affirm the award if there is substantial record evidence to support it: the trial court's findings will not be set aside unless it is shown that they are clearly erroneous. Milgo Electronic Corp. v. United Business Communications, Inc., 623 F.2d 645, 663 (10th Cir.), cert. denied, 449 U.S. 1066 (1980). Balanced against this is the standard for review of documentary evidence cited by Medical, which states that where the critical evidence is documentary, an appellate court need



not defer to the trial court's assessment of the meaning and credibility of that evidence. In Re Trust Known as Great Northern Iron Ore Properties, 308 Minn. 221, 243 N.W.2d 302, 305 (1976).

It is clear that Medical's attempted credits and deductions are an improper attempt to 1) reduce the damage award as determined by the jury, not because it was unsupported by the evidence but because of subsequent events; 2) arbitrarily and unilaterally impose an entirely new accounting procedure from that agreed upon by the parties in their original agreement, and used by the parties previously; 3) deduct an amount which the trial court previously determined had been waived due to Medical's failure to include the amount in pre-trial itemizations, and which amount had not been allowed to be proved or



presented at trial. Even if this court accepts the "de novo" standard of review, the trial court must be affirmed.

### D E C I S I O N

There is no basis in the law or in the code of judicial conduct to support appellant's request for disqualification of the trial judge.

Evidence of misconduct of a nonparty involving a collateral issue which was discoverable before trial did not present extraordinary circumstances or warrant the granting of a new trial.

Assignment of the Huffstutler patent under the grant-back provision of the license agreement did not constitute patent misuse because it did not substantially extend the scope of the Kaster patent.



A-121

Royalty payment credits and deductions claimed by appellant were improper and inconsistent with the terms of the license agreement.

**Affirmed.**

/s/ Thomas Forsberg

May 4, 1987





A-122

STATE OF MINNESOTA

IN SUPREME COURT

C8-86-1717 and CX-86-1718

The Regents of the University  
of Minnesota,

Respondent,

vs.

Medical Incorporated,

Appellant.

ORDER

Based upon all the files, records  
and proceedings herein,

IT IS HEREBY ORDERED that the  
petition of Medical Incorporated for



A-123

further review be, and the same is,  
denied.

Dated: 7-15-87

BY THE COURT:

/s/ Rosalie E. Wahl

Associate Justice



STATE OF MINNESOTA      \_      Supreme Court  
   X      Court of Appeals

The Regents of the  
University of  
Minnesota,

JUDGMENT

Respondent,

C8-86-1717 &

CX-86-1718

vs.

Appellate Court

Medical Incorporated

Case Number

Appellant.

94170

Trial Court

Case Number

Pursuant to an order of Court heretofore  
duly made and entered in this cause it is  
determined and adjudged that the Order of  
the Court below, herein appealed from, to  
wit, of the District Court within and for



A-125

the County of Dakota be and the same hereby is affirmed and that judgment be entered accordingly. A certified copy of the entry of judgment and the Court's decision is herein transmitted and made part of the remittitur.

Dated and  
signed:

Attest:

FOR THE  
COURT

By: /s/ Susan J. Mundahl  
Court Marshal

July 31, 1987

Dated

(2)

No. 87-618

Supreme Court, U.S.

FILED

NOV 16 1987

JOSEPH F. SPANIOL, JR.  
CLERK

In the  
**Supreme Court of the United States**  
October Term 1987

MEDICAL INCORPORATED,

*Petitioner,*

vs.

THE REGENTS OF THE  
UNIVERSITY OF MINNESOTA,

*Respondent.*

On Petition For A Writ of Certiorari  
To The Minnesota Court Of Appeals

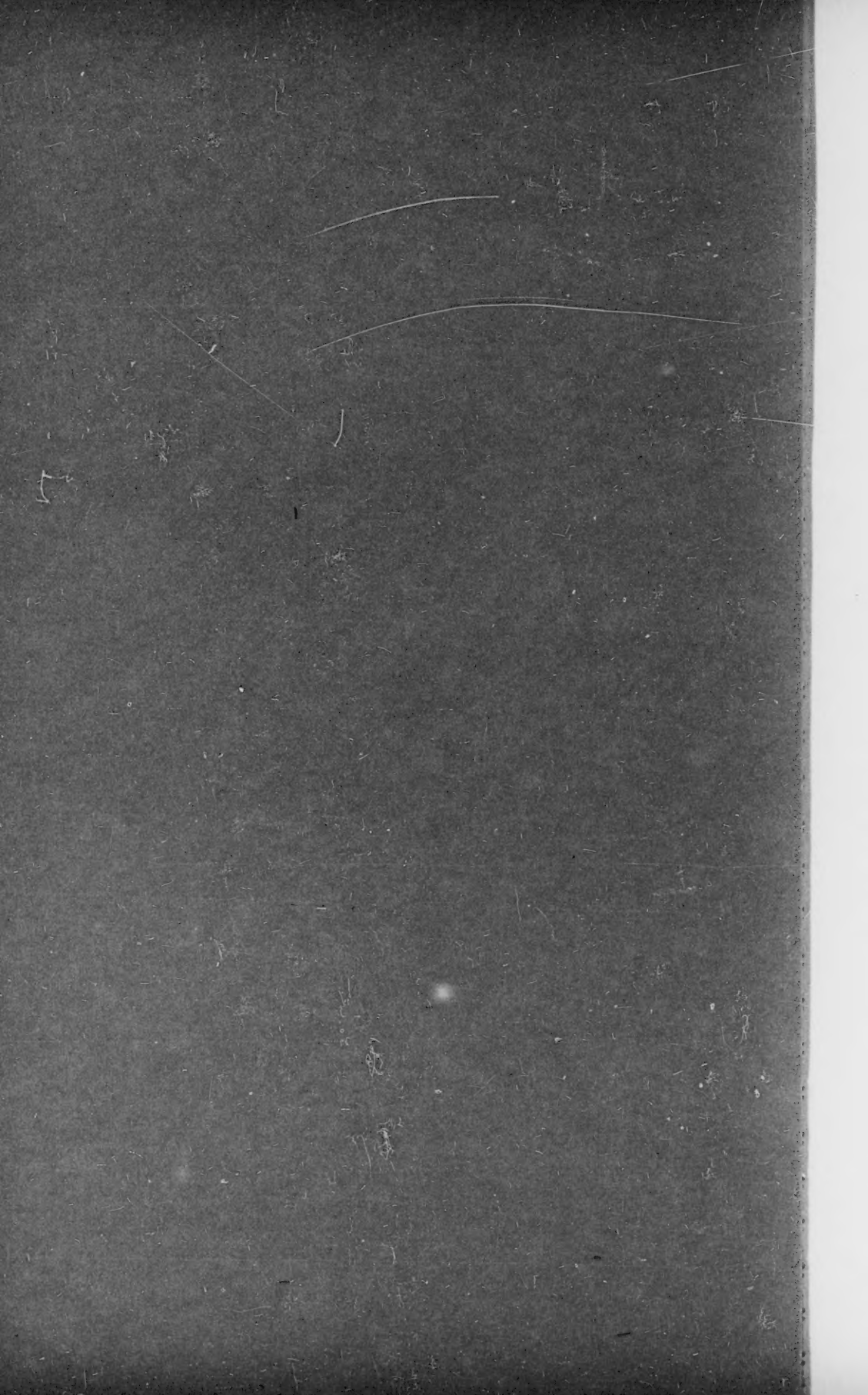
**BRIEF IN OPPOSITION**

Thomas Tinkham, Esq.  
Counsel of Record  
Leslie J. Anderson, Esq.  
DORSEY & WHITNEY  
2200 First Bank Place East  
Minneapolis, Minnesota 55402  
(612) 340-2600

*Attorneys for Respondent*

24 PD





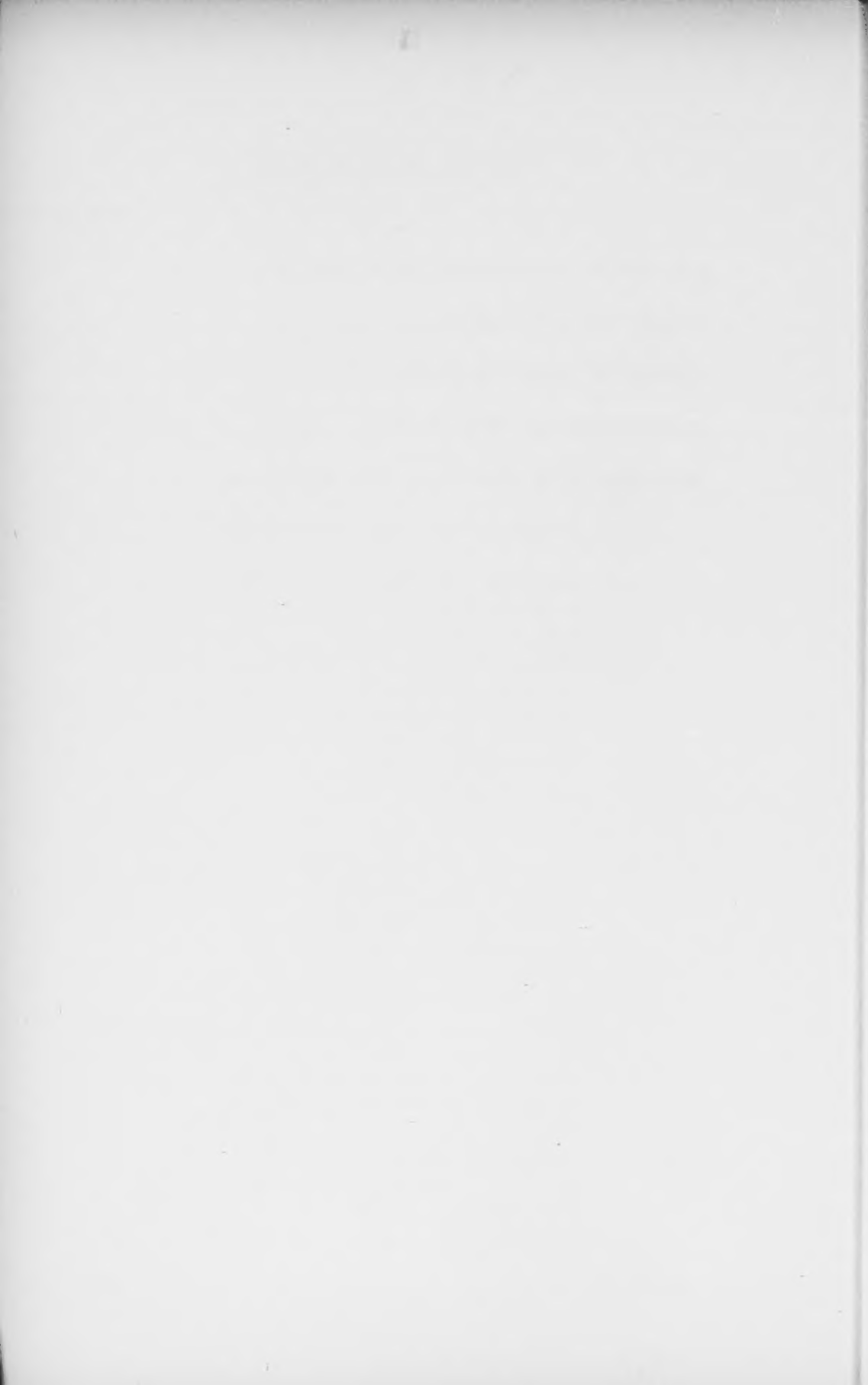
QUESTION PRESENTED FOR REVIEW

Whether a grant-back clause in a patent license agreement that requires assignment of a narrow improvement patent that is within the scope of the claims of the licensed patent is per se patent misuse because the term of the assigned patent expires after the term of the licensed patent, in the absence of any allegations or evidence of monopolistic or anti-competitive intent or effect.



## TABLE OF CONTENTS

	<u>PAGE</u>
QUESTION PRESENTED FOR REVIEW.....	i
TABLE OF CONTENTS.....	ii
TABLE OF AUTHORITIES.....	iii
STATEMENT OF THE CASE.....	1
REASONS FOR DENYING THE WRIT.....	9
1. SUMMARY OF THE ARGUMENT.....	9
2. MEDICAL'S PETITION FOR A WRIT OF CERTIORARI SHOULD BE DENIED BECAUSE THE DECISION OF THE MINNESOTA COURT OF APPEALS IS NOT IN CONFLICT WITH APPLICABLE DECISIONS OF THIS COURT.....	10
3. MEDICAL'S PETITION SHOULD BE DENIED BECAUSE THIS CASE PRESENTS A POOR RECORD FOR REVIEW OF THE APPEALED ISSUE.....	24
4. MEDICAL'S PETITION FOR A WRIT OF CERTIORARI SHOULD BE DENIED BECAUSE THIS COURT HAS ALREADY DENIED MEDICAL REVIEW ON THIS ISSUE.....	26
CONCLUSION.....	26



## TABLE OF AUTHORITIES

	<u>PAGE</u>
<u>Bio-Rad Laboratories, Inc. v.</u> <u>Nicolet Instrument Corp.,</u> <u>739 F.2d 604, cert. denied,</u> <u>469 U.S. 1038</u> (1984).....	11
<u>Brulotte v. Thys Co.,</u> <u>379 U.S. 29 (1964)</u> .....	14, 15, 16, 17
<u>Duplan Corporation v.</u> <u>Deering Milliken, Inc.,</u> <u>444 F. Supp. 648</u> (D.S.C. 1977), <u>aff'd in part and</u> <u>rev'd in part</u> <u>on other grounds,</u> <u>594 F.2d 979</u> (4th Cir. 1979), <u>cert. denied sub nom.</u> <u>Ateliers Roannois de</u> <u>Constructions Textiles</u> <u>v. Duplan, 444 U.S. 1015</u> (1980).....	22
<u>In re Reclosable Plastic</u> <u>Bags, 192 U.S.P.Q. 674</u> (U.S. Int'l. Trade Comm. 1977).....	20



<u>Malco Manufacturing Co.</u> <u>v. National Connector</u> <u>Corp., 151 U.S.P.Q.</u> <u>255 (D. Minn. 1966)</u> <u>aff'd in part,</u> <u>rev'd in part on</u> <u>other grounds,</u> <u>392 F.2d 766</u> <u>(8th Cir. 1968)</u> <u>cert. denied 393 U.S. 923</u> <u>(1968).....</u>	21
<u>Scott Paper Co. v. Marcalus</u> <u>Mfg. Co., 326 U.S. 249</u> <u>(1945).....</u>	16
<u>Sperry Products, Inc. v.</u> <u>Aluminum Co. of</u> <u>America, 171 F. Supp. 901</u> <u>(N.D. Ohio 1959),</u> <u>aff'd in part,</u> <u>rev'd in part</u> <u>on other grounds, 285 F.2d</u> <u>911 (6th Cir. 1960),</u> <u>cert. denied,</u> <u>368 U.S. 890</u> <u>(1961).....</u>	21
<u>Swofford v. B &amp; W, Inc.,</u> <u>251 F. Supp. 811</u> <u>(S.D. Tex. 1966), <u>aff'd,</u></u> <u>395 F.2d 362</u> <u>(5th Cir. 1968),</u> <u>cert. denied,</u> <u>393 U.S. 935</u> <u>(1966).....</u>	20
<u>Transparent-Wrap Machine Corp.</u> <u>v. Stokes &amp; Smith Co.,</u> <u>329 U.S. 637 (1947).....</u>	12, 14, 16, 17, 20, 22, 24





<u>USM Corp. v. SPS Technologies,</u> <u>Inc., 694 F.2d 505</u> <u>(7th Cir. 1982), cert.</u> <u>denied, 462 U.S. 1107</u> <u>(1983).....</u>	23, 25
<u>Windsurfing International, Inc.</u> <u>v. AMF Incorporated,</u> <u>782 F.2d 995,</u> <u>(Fed. Cir.), cert.</u> <u>denied sub nom.</u> <u>Bic Leisure Products,</u> <u>Inc. v. Windsurfing</u> <u>International Inc.,</u> <u>U.S. _____,</u> <u>106 S.Ct. 3275</u> <u>(1986).....</u>	13, 23, 25
<u>Zajicek v. Koolvent Metal</u> <u>Awning Corp., 283 F.2d 127</u> <u>(9th Cir. 1960),</u> <u>cert. denied, 365 U.S. 859</u> <u>(1961).....</u>	21, 22
<u>Zenith Radio Corp. v. Hazeltine</u> <u>Research, Inc., 395 U.S. 100</u> <u>(1969).....</u>	16

## SECONDARY AUTHORITIES

<u>Chisum, 4 Patents: A Treatise</u> <u>on the Law of Patentability,</u> <u>Validity and Infringement</u> <u>(1987).....</u>	19, 20
<u>Comment, The Validity of</u> <u>Grant-Back Clauses</u> <u>In Patent Licensing</u> <u>Agreements, 42 U. Chi.</u> <u>L. Rev. 733</u> <u>(1975).....</u>	17, 18



# BEST AVAILABLE COPY

Rosenberg, 2 Patent Law  
Fundamentals,  
§ 16.02[2] (2d ed.  
1984)..... 19

Stedman, Acquisition of Patents  
and Know-How by Grant,  
Fraud, Purchase and  
Grant-Back, 28 U.  
Pitt. L. Rev. 161  
(1969)..... 18



No. 87-618

In The Supreme Court  
Of The United States

October Term 1987

---

MEDICAL INCORPORATED,

Petitioner,

vs.

THE REGENTS OF THE  
UNIVERSITY OF MINNESOTA,

Respondent.

---

---

On Petition For A Writ Of Certiorari  
To The Minnesota Court Of Appeals

---

---

**BRIEF IN OPPOSITION**

---

A. Statement of the Case

In 1971 petitioner Medical Incorporated ("Medical") was created to manufacture heart valves developed at the University of Minnesota which were covered



by patents owned by respondent the Regents of the University of Minnesota ("University"), including U.S. Patent No. 3,476,143 (the "Kaster" patent). The parties entered into an agreement that licensed the patents, transferred technology to Medical, provided that the University would license any improvements to Medical, and, in turn, required Medical to pay royalties on heart valves that it manufactured and sold and to assign improvement patents to the University. Pl. Exh. 45.

In 1975 the parties amended the License Agreement. Pl. Exh. 67. The amendment inter alia reaffirmed Medical's obligation to pay the University royalties on the heart valves it was manufacturing. Despite having sold over \$60,000,000 worth of heart valves between 1971 and 1984, Medical never paid the University any royalties.





No evidence was introduced at trial that Medical ever questioned or complained about the assignment provision during the 1971 license negotiations, despite the fact that Medical actively participated in the drafting and revising of the 1971 License Agreement and was represented by its counsel, Charles Andrews (currently President of Medical) during the negotiations with the University. Trial Tr. pp. 828-30. Indeed, the Chief Patent Officer of the University (a non-lawyer), who represented the University in the 1971 negotiations, recalled that Medical had proposed the draft License Agreement from which the parties worked, which included the improvement patent assignment clause. See Pl. Exh. 46; Trial Tr. p. 272. Medical similarly did not argue at trial that it had sought to eliminate the improvement patent assignment clause during the negotiations surrounding the



1975 amendment. There was thus no evidence at trial that the University in any way required the inclusion of the assignment provision as a condition to entering into the License Agreement.

In 1982 the University sued Medical for breach of the terms of the License Agreement, as amended. During the course of discovery the University learned for the first time that Medical had procured a patent (U.S. Patent No. 4,240,161, the "Huffstutler patent") covering a narrow improvement to the Kaster patent. The University asserted its right to the patent under the assignment clause.

After trial in November 1984, the jury determined that the License Agreement obligated Medical to pay royalties on the heart valves that it manufactured and sold, and that all of the heart valves manufactured by Medical were covered by



the claims of the Kaster patent. The jury awarded the University \$2.9 million in royalties through the date of trial and Medical was ordered to continue to pay royalties for the duration of the License Agreement.<sup>1/</sup> Additionally, the jury found that the Huffstutler patent was an improvement patent that should be assigned to the University.

Although Medical raised the affirmative defense of patent misuse in its Answer, it introduced little evidence and sought no jury instruction or special verdict question on the misuse issue at trial. A-44. It neither alleged nor

---

<sup>1/</sup> The award of royalties was appealed to and has been affirmed by the Minnesota Court of Appeals (See Opinion filed February 11, 1986, A-11 - A-60), and this Court previously denied Medical's Petition for a Writ of Certiorari that raised issues related to the royalties award. Medical currently raises no issues for review relating to the royalties under the License Agreement, as amended and this judgment is now final.



introduced any evidence that the assignment clause had anticompetitive purpose or effect. A-114. Nonetheless, on its initial appeal, Medical asserted that various terms of the License Agreement, as amended, constituted patent misuse, including the assignment clause. The Minnesota Court of Appeals found no patent misuse, noting inter alia that patent assignment clauses are not per se unlawful. A-48. Because of the paucity of evidence in the record on the assignment issue (A-49), the Court of Appeals felt unable to make a finding and remanded that question to the trial court, seeking a technical comparison of the Huffstutler and Kaster patents to determine whether Medical had met its burden of proof on its affirmative defense of patent misuse. On remand, the trial court determined that Medical had not met its burden. Instead the University had established at trial,





based on its expert testimony and numerous admissions by Medical to the Food and Drug Administration, that the invention disclosed by the Huffstutler patent is a narrow refinement of the Kaster patent, specifying a more precise disc shape and pivot projections. A-73 - A-79.

Prior to the remand, Medical sought review by this Court of the same issue on which it currently seeks review:

The parties' heart valve patent licensing agreement requires the grant-back of Petitioner's 'entire right, title and interest' to an improvement patent. The question presented is whether a license agreement containing such a provision<sup>2/</sup> is invalid and misuse of patent.

---

<sup>2/</sup> Petition for a Writ of Certiorari of Medical Incorporated filed on August 20, 1986. (The University disagrees with Medical's assertion that a finding of misuse would invalidate the license agreement; on the instant facts it would merely invalidate the assignment of the Huffstutler patent.)



On October 14, 1986, this Court denied Medical's Petition.

Medical appealed the trial court's findings on the remanded issue (the technical comparison of the Kaster and Huffstutler patent), along with the rulings on two Rule 60 motions it had brought. Additionally the parties had a post-trial dispute concerning Medical's ongoing obligation to pay the University royalties because Medical, by changing its accounting procedures, claimed that it owed the University no royalties for the entire eighteen months that had elapsed since the judgment. The trial court confirmed that Medical owed the University an additional \$685,691 in post-judgment royalties. Findings of Fact, Conclusions of Law and Order for Judgment and Judgment dated August 27, 1986. All of these issues were resolved by the Minnesota Court of Appeals in the University's



favor; the Minnesota Supreme Court denied Medical's Petition for Review; and it is from the Court of Appeals' ruling on the assignment issue that Medical now again seeks review from this Court.

This Petition therefore represents Medical's final, vexatious attempt to delay paying the University royalties on the patent that has been the foundation of its commercial operations.<sup>3/</sup>

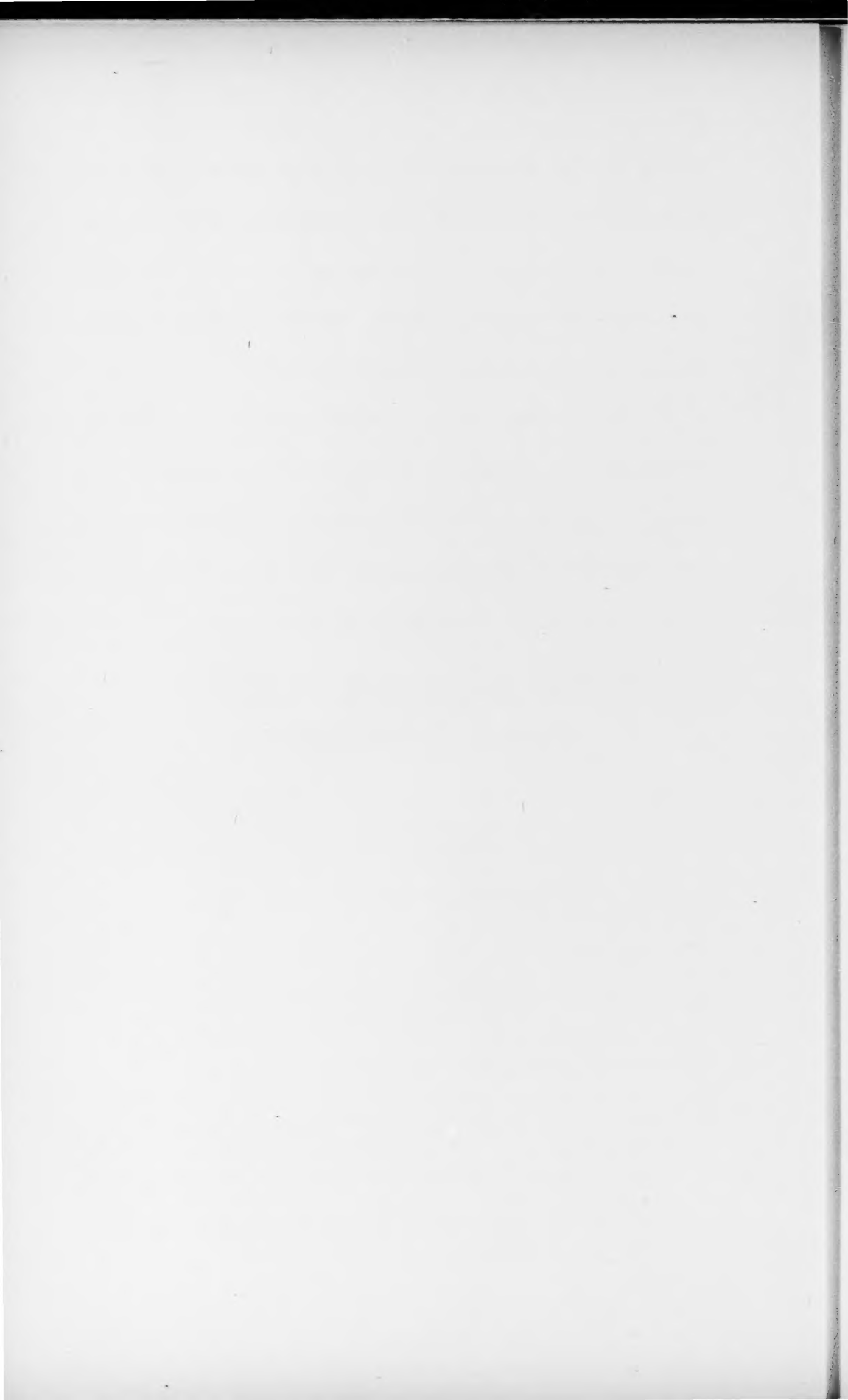
B. Reasons for Denying the Writ

1. Summary of the Argument

This Court should deny Medical's Petition for three reasons. First, the questioned decision of the Minnesota Court of Appeals is not in conflict with the applicable decisions of this Court. In

---

<sup>3/</sup> The trial court interpreted the terms of the Supersedeas Bond provided by Medical to preclude collection on the bond until after Medical exhausted all appeal and review procedures, including seeking discretionary review by this Court.



fact, to find for Medical, the Court would have to overrule the leading case in the area. The Minnesota Court of Appeals' application of established federal law to the particular facts before it is not erroneous, nor does it raise any important issue justifying further review by this Court. Second, even if this Court wished to reconsider its holding in the leading case, the record below on the misuse issue is inadequate for that purpose. Third, Medical has already unsuccessfully sought review from this Court of the same issue.

2. Medical's Petition For A Writ Of Certiorari Should Be Denied Because The Decision Of The Minnesota Court of Appeals Is Not In Conflict With Applicable Decisions Of This Court.

---

Medical argues that the decision of the Minnesota Court of Appeals is in conflict with applicable decisions of this Court. The Minnesota Court of Appeals found that assignment clauses in patent





license agreements are not per se misuse: "the mere existence of a grant-back provision, such as this one used by the University here, is not enough to prove patent misuse." A-114. Based on this principle, it then affirmed the trial court's findings that, on the facts of this case, Medical had failed to prove its affirmative defense of patent misuse.<sup>4/</sup>

Medical claims that this finding conflicts with applicable decisions of this Court because the duration of the assigned improvement patent exceeds that of the licensed patent. Almost by definition, an improvement patent will expire after the basic patent. By seeking review of this "duration" issue, Medical essentially seeks a per se rule that

---

<sup>4/</sup> For authority that patent misuse is an affirmative defense, see Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604, 615, cert. denied, 469 U.S. 1038 (1984).



patent licenses cannot include clauses providing for assignment of improvement patents to the licensor. This Court has already refused to make the requested per se holding, in Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) ("Trans-Wrap"). Trans-Wrap holds that:

the inclusion in the license of the condition requiring the licensee to assign improvement patents is not per se illegal and unenforceable.

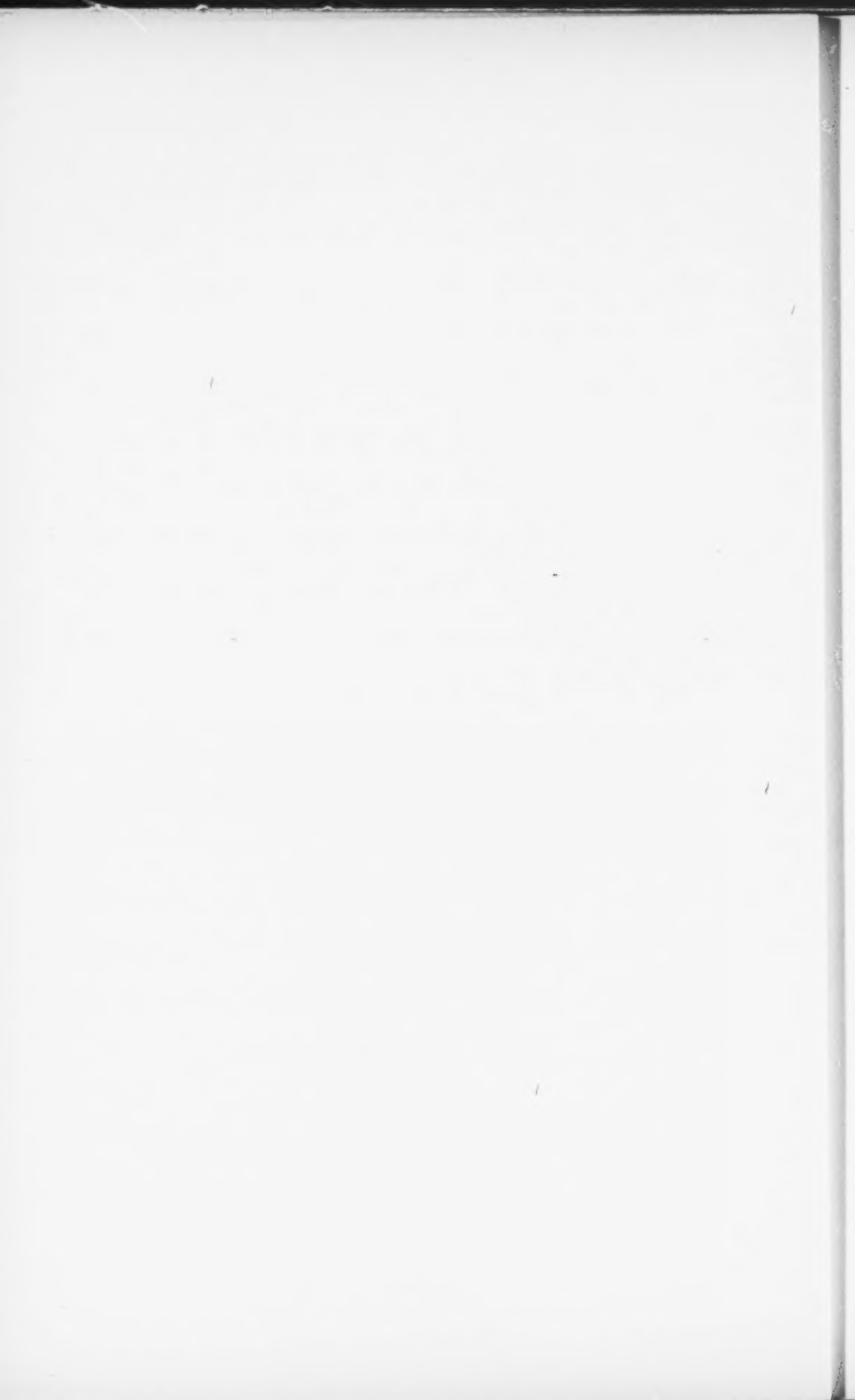
329 U.S. at 648. The Court reasoned in Trans-Wrap that patents are legalized monopolies for limited periods. As such, they are freely assignable and acquirable:

One who uses one patent to acquire another is not extending his patent monopoly to articles governed by the general law and as respects which neither monopolies nor restraints of trade are sanctioned. He is indeed using one legalized monopoly to acquire another legalized monopoly.



329 U.S. at 644. The Court concluded that, to find patent misuse in a license agreement with an assignment clause, the clause must be "employed with the purpose or effect of violating the anti-trust laws." 329 U.S. at 646. The Minnesota Court of Appeals found "nothing of this nature alleged in this case" (A-114), and determined that Medical had not shown the assignment clause to constitute patent misuse. The Court of Appeals' analysis is consistent with that of the Federal Circuit in Windsurfing International, Inc. v. AMB, Inc., 782 F.2d 995 (Fed. Cir. 1986), cert. denied sub nom. Bic Leisure Products, Inc. v. Windsurfing International, Inc., \_\_\_ U.S. \_\_\_, 106 S.Ct. 3275 (1986), in which the court stated:

The doctrine of patent misuse is an affirmative defense to a suit for patent infringement, . . . and requires that the alleged infringer show that the patentee has



impermissibly broadened the "physical or temporal scope" of the patent grant with anti-competitive effect. . . .

To sustain a misuse defense involving a licensing arrangement not held to have been per se anti-competitive by the Supreme Court, a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market. Id. at 1001-1002. Citations omitted.

In light of Trans-Wrap, it is simply wrong for Medical to argue that a conflict exists between the applicable decisions of this Court and the decision of the Minnesota Court of Appeals. Nor is Medical's argument that the decision of the Minnesota Court of Appeals is in conflict with Brulotte v. Thys Co., 379 U.S. 29 (1964) persuasive. Brulotte has nothing to do with assignment clauses in patent licenses, and it never cites Trans-Wrap, although Justice Douglas authored both decisions. In Brulotte, the





1

license agreement required the licensee to continue to pay royalties for the use of machines after the expiration of all of the patents incorporated in the machines. The licensor thus sought to extract royalties from the licensee after it had ceased to be the owner of any valid patents relating to the licensed products. This was the wrongful projection of royalties condemned by Brulotte. In contrast, with an assignment provision the licensor continues to receive royalties because it is the owner of a valid unexpired patent. A-114.<sup>5/</sup>

---

<sup>5/</sup> Medical argues that the facts of this case are particularly troubling because it now finds itself in the position of an infringer of the Huffstutler patent, which it refers to as "its own" patent. First, Medical is not the owner of the Huffstutler patent: the University is. Second, the License Agreement, as amended, provided that any improvement patents assigned by Medical to the University were to be "subject to this agreement without payment of additional royalty." Pl. Exh. 45, ¶ 8. The University argued that the License



The other decisions of this Court cited by Medical are similarly irrelevant to the grant-back situation. Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945), a pre-Trans-Wrap decision, held that a patent assignor was not estopped from arguing that the prior art of an expired patent anticipated and narrowed the claims of the assigned patent, so as to render the assignor's manufactured device non-infringing of the assigned patent. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969)

---

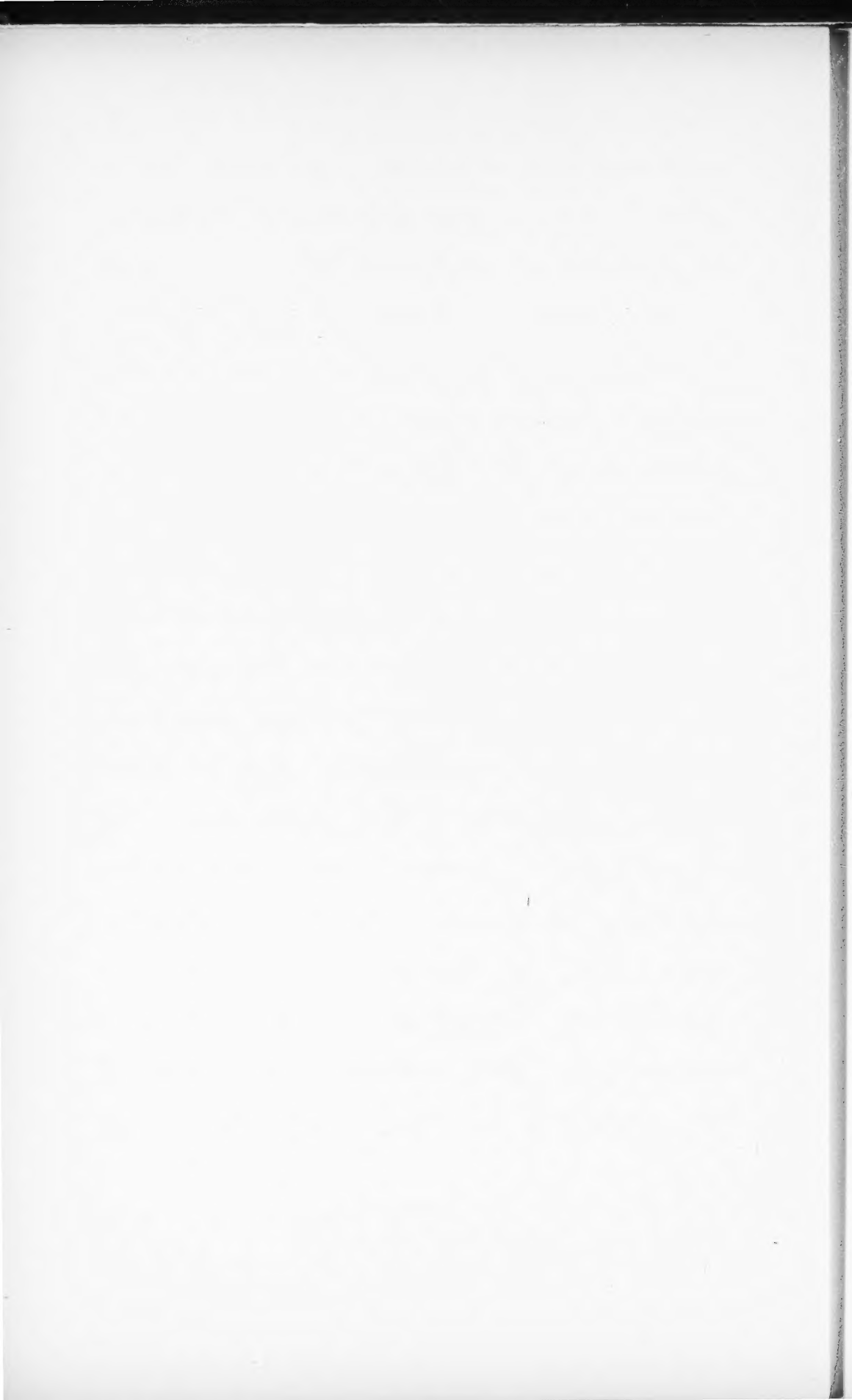
5/ (Footnote Continued)

Agreement, as amended was properly interpreted to extend to the expiration of the Huffstutler patent. Medical successfully argued against this interpretation. It is disingenuous for Medical now to complain that "the extension here has even greater potential for oppression of the licensee than that which Brulotte condemned, since Medical cannot simply pay a previously negotiated royalty to continue using the teachings of the improved patent." Petition at 15. Medical itself argued for this result.



condemned conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent. However, such arrangements, if not conditioned, are permissible. Neither case bears any factual resemblance to Trans-Wrap or to the instant case.

On page 11 of its petition, Medical cites numerous "post-Brulotte" authorities which it claims buttress its position that assignment of the Huffstutler patent to the University is unlawful. None of these cases involves an assignment or "grant-back" clause of improvement patents. Medical's citation of commentators that it claims have "repeatedly questioned" Trans-Wrap is similarly misleading. For example, the author of The Validity of Grant-Back Clauses In



Patent Licensing Agreements<sup>6/</sup> argues that "grant-backs should be presumptively permissible because economic analysis strongly supports the proposition that grant-backs do not violate the public policy embodied in the patent laws." 42 U. Chi. L. Rev. at 734. Stedman's article<sup>7/</sup> states that its concern is coerced grant-backs, where there is evidence that the licensor refuses to license except on the condition of the grant-back. 28 U. Pitt. L. Rev. at 169. There is no evidence of such conditioning or coercion in this case; in contrast, the Minnesota Court of Appeals found evidence of "considerable bargaining by the parties over a number of terms in the agreement."

---

<sup>6/</sup> Comment, 42 U. Chi. L. Rev. 733 (1975).

<sup>7/</sup> Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grant-Back, 28 U. Pitt. L. Rev. 161, 169 (1969).





A-47. Rosenberg<sup>8/</sup> states that a restrictive assignment provision may violate the antitrust laws if it perpetuates a licensor's dominant market position or otherwise effects a restraint of trade or creates a monopoly. Again, no antitrust violations have ever been alleged in this case. The University is not even in the heart valve manufacturing business and certainly has no monopoly. Further, the License Agreement licensed any improvements made by the University to Medical. Pl. Exh. 45, ¶ 7. Rosenberg further notes "improvement patents may be viewed as simply a species of property given as consideration for the right to a basic patent. Grant-back clauses are deemed not to be per se violations of the Sherman Act". § 16.02[2] at 16-26 (citations omitted). See also Chisum, 4 Patents: A

---

<sup>8/</sup> 2 Patent Law Fundamentals § 16.02[2] at pp. 16-26, 16-26.1 (2d. ed. 1984).



Treatise on the Law of Patentability,  
Validity and Infringement (1987)

§ 19.04[3] at p. 19-149 and cases cited therein: "In suits between patentees and infringers or licensees, the lower courts generally follow Trans-Wrap in rejecting antitrust and misuse defenses to grant-back clauses."

Additionally, numerous post-Trans-Wrap and post-Brulotte cases have sanctioned assignment clauses in patents. See In re Reclosable Plastic Bags, 192 U.S.P.Q. 674, 679 (U.S. Trade Comm. 1977) (Where "there is no evidence that the grant-back provision constitutes an undue restraint or exerts an adverse effect on trade or commerce, . . . grant-back provisions are legal even when they cause the licensee to give up complete right to his improvement invention to the licensor. . ."); Swofford v. B & W, Inc., 251 F. Supp. 811, 820-21 (S.D. Tex. 1966),



aff'd, 395 F.2d 362 (5th Cir. 1968), cert. denied, 393 U.S. 935 (1968) ("The Supreme Court of the United States . . . decided that the obtaining of an improvement patent from a licensee by assignment is clearly permitted by the patent laws in the case of [Trans-Wrap] . . ."); Malco Manufacturing Co. V. National Connector Corp., 151 U.S.P.Q. 255, 263 (D. Minn. 1966), aff'd in part, rev'd in part on other grounds, 392 F.2d 766 (8th Cir. 1968), cert. denied, 393 U.S. 923 (1968) (Patent license grant-back clause requiring assignment of improvement patents not illegal); Sperry Products, Inc. v. Aluminum Co. of America, 171 F. Supp. 901, 936-37 (N.D. Ohio 1959), aff'd in part, rev'd in part on other grounds, 285 F.2d 911 (6th Cir. 1960), cert. denied, 368 U.S. 890 (1961) (No misuse found in grant-back requiring assignment of foreign improvement patents); Zajicek v. Koolvent



Metal Awning Corp., 283 F.2d 127 (9th Cir. 1960), cert. denied, 365 U.S. 859 (1961); and Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 700 (D.S.C. 1977), aff'd in part and rev'd in part, 594 F.2d 979 (4th Cir. 1979), cert. denied sub. nom. Ateliers Roannois re Constructions Textiles v. Duplan, 444 U.S. 1015 (1980) (Noting in dictum that if patent assignments sought had been limited to improvement patents relating to the subject matter of the licensed patents, such assignments would "in all probability . . . have satisfied the test in [Trans-Wrap]").

In contrast, Medical cites no case that holds that a license agreement with an assignment clause requiring the grant-back of narrow improvement patents is patent misuse merely because the assigned patent expires after the licensed patent.





Finally, recent judicial opinions have questioned the validity of the economic and public policy analysis that allegedly support an expansion of the doctrine of patent misuse. See e.g. Windsurfing International, Inc. v. AMF Incorporated, 782 at fn. 9, p. 1001 ("Recent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive"); USM Corp. v. SPS Technologies, Inc., 694 F.2d 505, 510-12 (7th Cir. 1982), cert. denied, 462 U.S. 1107 (1983).

This case presents the least egregious facts likely to arise in an assignment case: (1) a non-profit University is the creator of the basic invention; (2) the University as assignee of the improvement patent is not competing as a heart valve manufacturer; (3) the assignee started the assignor in business; (4) there is no allegation or evidence of

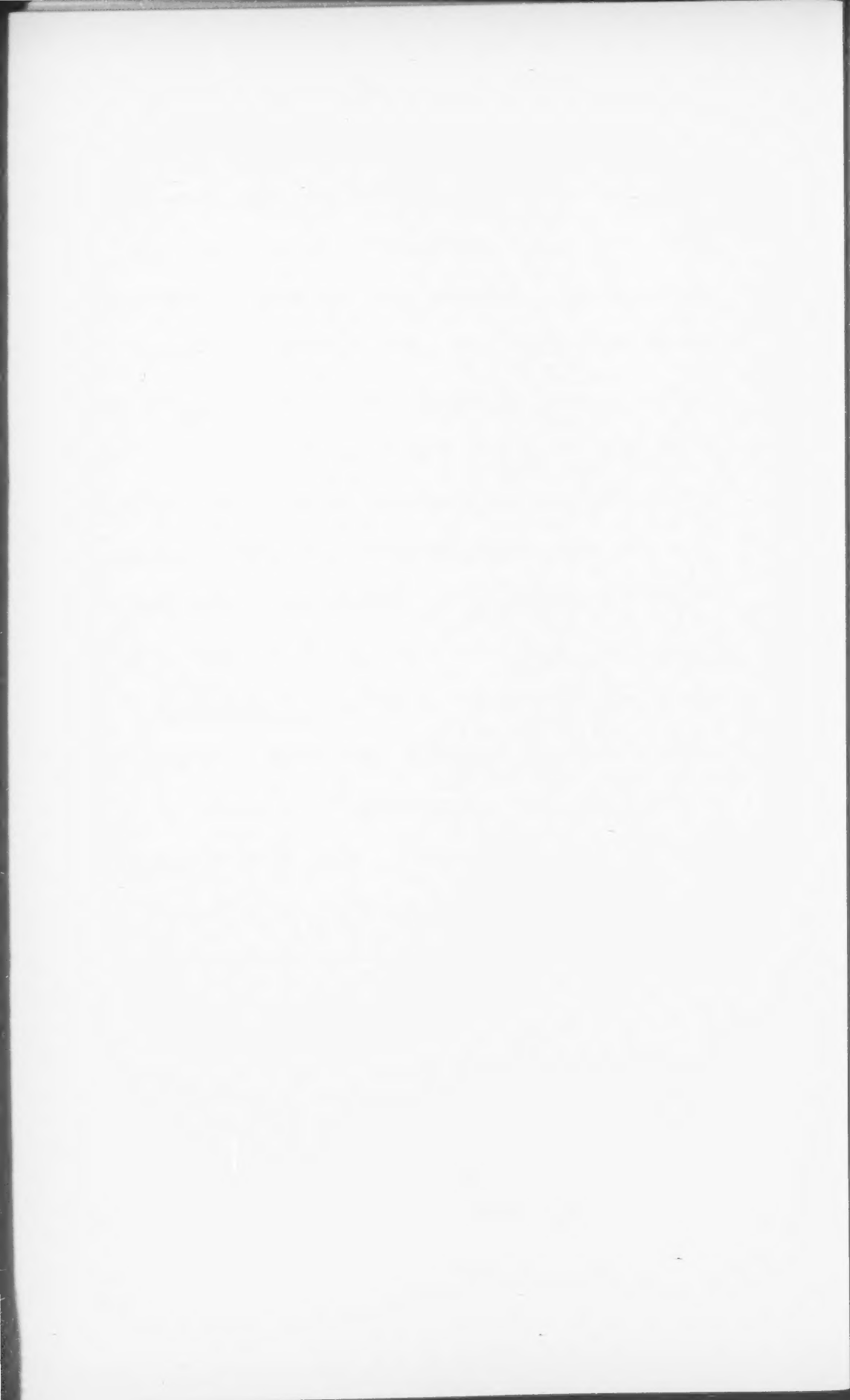


any coercion; (5) the assignee also agreed to provide improvements to the assignor; and (6) the assigned invention is a particularly narrow improvement. There is thus no error in the Minnesota Court of Appeals resolution of the misuse issue nor does the holding below raise an important issue requiring resolution by this Court.

In sum, the decision of the Minnesota Court of Appeals is premised upon, rather than in conflict with, the applicable decision of this Court: Trans-Wrap. A clause in a license agreement requiring assignment of improvement patents is not per se patent misuse, and the Minnesota state courts did not err in refusing to find patent misuse on the facts of this case.

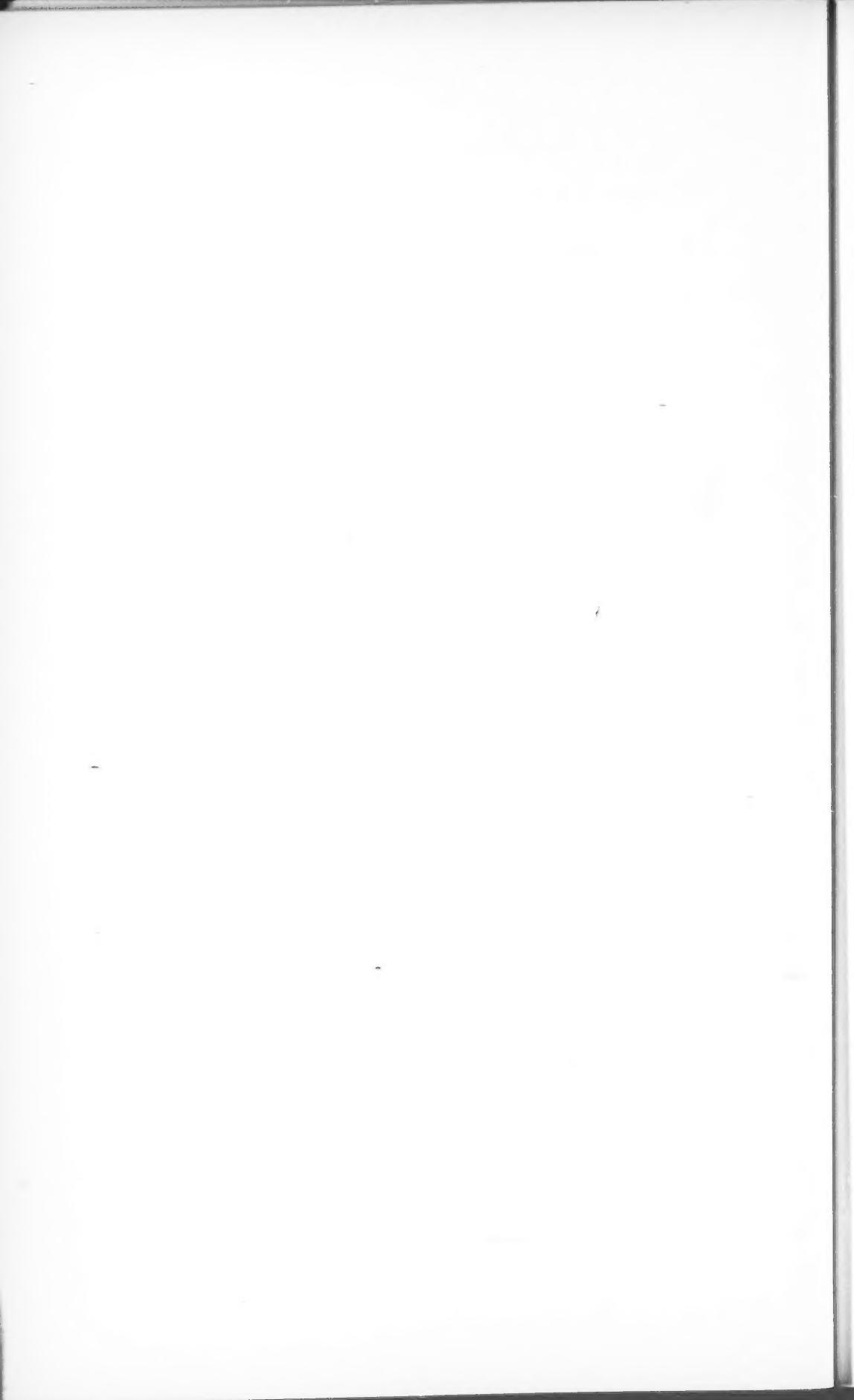
3. Medical's Petition Should Be Denied Because This Case Presents A Poor Record For Review Of The Appealed Issue.

Although Medical plead patent misuse



as an affirmative defense, it did not allege that the purported misuse had any anti-competitive purpose or effect (A-114) and did not seek a jury instruction or special verdict interrogatory on the issue (A-44). It first vigorously argued patent misuse on its initial substantive appeal to the Minnesota Court of Appeals.

This case presents no developed record on antitrust issues as a background or basis to analyze the misuse question, despite the fact that the patent misuse doctrine is rooted in the antitrust laws. See USM Corp. v. SPS Technologies, Inc., 694 F.2d at 511 (Noting convergence of antitrust and patent misuse doctrines); Windsurfing International, 782 F.2d at 1001-02. The misuse issue raised by this Petition is an afterthought that Medical argued for the first time on appeal after the jury's determination that it indeed was obligated to honor its contractual



obligations to the University. Such an afterthought forms a poor basis for review.

4. Medical's Petition For A Writ Of Certiorari Should Be Denied Because This Court Has Already Denied Medical Review On This Issue.

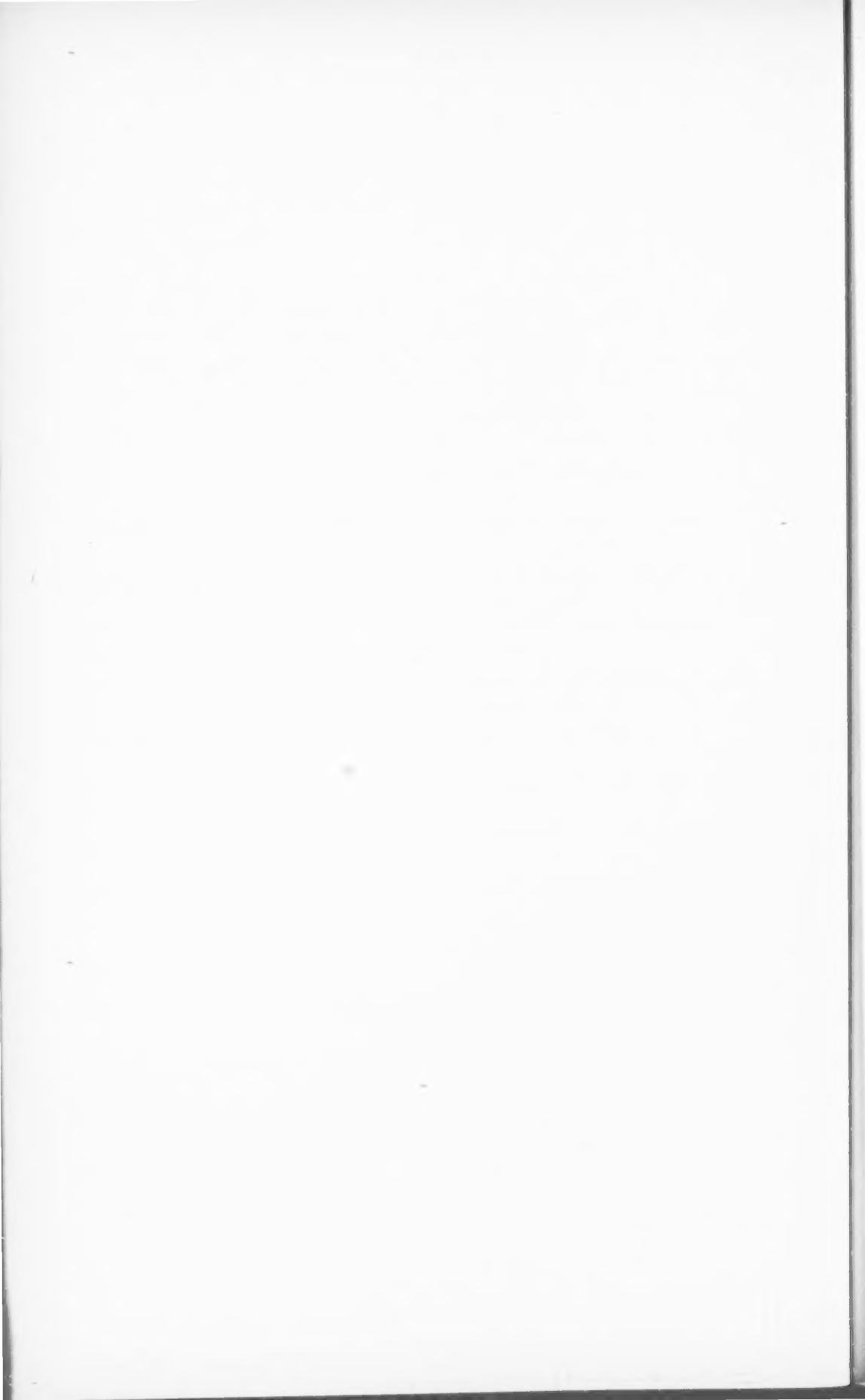
---

While the University believed the issue was premature, Medical has already sought this Court's review of the identical issue that it now raises: whether it is patent misuse for a license agreement to require assignment of improvement patents. See p. 7 supra. This Court denied Medical's Petition. No good purpose can be served by changing that decision.

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari to the Minnesota Court of Appeals should be denied.





Dated: November 13, 1987

Respectfully submitted,

DORSEY & WHITNEY

By

Thomas Tinkham  
Thomas Tinkham

Counsel of Record

Leslie J. Anderson

2200 First Bank Place East

Minneapolis, Minnesota 55402

Telephone: (612) 340-2600

Attorneys for Respondent